
**Review of Revolving Funds, Trust
Funds, and Trust Accounts of the
Office of the Governor, Office of
the Lieutenant Governor,
Department of Education and
Hawai'i State Public Library
System, and Office of Hawaiian
Affairs**

A Report to the
Governor
and the
Legislature of
the State of
Hawai'i

Report No. 06-08
November 2006



THE AUDITOR
STATE OF HAWAII

Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawai'i 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.

Hawai'i'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

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OVERVIEW

Review of Revolving Funds, Trust Funds, and Trust Accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai'i State Public Library System, and Office of Hawaiian Affairs

Report No. 06-08, November 2006

Summary

Section 23-12, Hawai'i 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 for each fund or account, an evaluation of the original intent and purpose of each fund or account, and a determination of the degree to which each fund or account achieves its stated and claimed purpose. The reviews are scheduled so that the funds administered by each state department will be reviewed once every five years. This is our third review of the revolving and trust funds, and trust accounts of the Office of the Governor, Department of Education, and Office of Hawaiian Affairs. This is our second review of the funds and accounts administered by the Office of the Lieutenant Governor and Hawai'i State Public Library System.

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 financed by revolving funds include loan programs that are initially established by general fund seed moneys and then replenished through the repayment of loans. *Trust funds* invoke a fiduciary responsibility of state government to care for and use the assets held for the benefit of those with a vested interest in the assets. 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.

Of the 33 funds and accounts we reviewed this year, 10 were revolving funds, 15 were trust funds, and 8 were trust accounts. We used criteria developed by the Legislature as well as criteria developed by our office from a review of public finance and accounting literature. These funds must continue to serve the purpose for which they were created and not require continuing general fund appropriations. In addition, a revolving fund must reflect a linkage between benefits sought and charges made upon users and also be an appropriate financial mechanism for the program or operation. A trust fund must also meet the statutory definition of a trust fund. For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued.



Responses

We transmitted a draft of this review to the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai'i State Public Library System, and Office of Hawaiian Affairs.

The Office of the Lieutenant Governor and Hawai'i State Public Library System were in general agreement in their exit conferences and did not submit responses.

The Office of the Governor offered no comments.

Although the Board of Education did not submit a response, the Department of Education did submit a response and agreed with our conclusion that the After-School Plus Program Revolving Fund did not meet the criteria of a revolving fund. The department noted that it would evaluate the need to amend the statute to comply with fund requirements.

The Office of Hawaiian Affairs agreed with our review of its funds.

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Submitted by

THE AUDITOR
STATE OF HAWAI'I

Report No. 06-08
November 2006

Foreword

This is a report of our review of revolving funds, trust funds, and trust accounts used by or administratively attached to the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai'i State Public Library System, and Office of Hawaiian Affairs.

Section 23-12, Hawai'i 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 is our third review of the revolving funds, trust funds, and trust accounts of the Office of the Governor, Department of Education, and Office of Hawaiian Affairs. This is our second review of the funds and accounts administered by the Office of the Lieutenant Governor and Hawai'i State Public Library System.

We wish to express our appreciation for the cooperation and assistance extended to us by the officials and staff of the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai'i State Public Library System, and Office of Hawaiian Affairs.

Marion M. Higa
State Auditor

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Chapter 1

Introduction

This report reviews the revolving funds, trust funds, and trust accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai'i State Public Library System, and Office of Hawaiian Affairs. Section 23-12, Hawai'i Revised Statutes (HRS), requires the State Auditor to review all revolving or trust funds administered by each state department every five years. This is our third review of the revolving funds, trust funds, and trust accounts of the Office of the Governor, Department of Education, and Office of Hawaiian Affairs. This is our second review of the funds and accounts administered by the Office of the Lieutenant Governor and Hawai'i State Public Library System. The first report conducted in 1996 (Report No. 96-21) reviewed 21 revolving funds, trust funds, and trust accounts. The second report conducted in 2002 (Report No. 02-05) reviewed 35 revolving funds, trust funds, and trust accounts. In this report, we reviewed a total of 33 revolving funds, trust funds, and trust accounts.

Background

In 1990, the Legislature, through Act 240, Session Laws of Hawai'i (SLH), 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 the proliferation of these types of funds had diverted resources from the general fund and, as a result, had weakened the Legislature's control over public moneys. Moneys deposited into and spent from special and revolving funds are not subject to an equivalent level of legislative scrutiny as those in the general fund.

The review of special and revolving funds required by Act 240, SLH 1990, was completed and presented in five separate reports issued in 1991 and 1992. We reviewed 166 special and revolving funds, and recommended that 70 funds be repealed, discontinued, or be allowed to sunset. 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 the reports were updated through Report No. 01-12, which 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 and trust fund at least once every five years. The section specifies that the review is to 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 fiscal 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 are then replenished through the repayment of loans. The State Motor Pool Revolving Fund is an example. 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 only for those designated to benefit from the funds. A pension fund is one example of a trust fund. Contributions and payments into the fund are to be held for the beneficiaries of the pension fund. Another example is tenants' security deposits, which are held in trust funds 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 projects for payroll or other costs.

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

The criteria we used to review revolving funds are similar to those used in past reviews. The criteria 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. 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 were derived from the initial 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 relies on general fund appropriations. If general fund appropriations are needed to finance its activities (as opposed to providing seed moneys only), classification as a trust fund may not be warranted. The fourth criterion assesses whether the fund is held by the State only for the benefit of those with a vested interest in the assets.

Similar criteria are used for the review of trust accounts. These 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 Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai'i State Public Library System, and Office of Hawaiian Affairs.
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 (FY2001-02 to FY2005-06), unaudited financial summary for each fund or account reviewed.
-

Scope and Methodology

This report examines those revolving funds, trust funds, and trust accounts administered by the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai'i State Public Library System, and Office of Hawaiian Affairs during the five-year period under review.

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 other documents as appropriate. However, we found that a majority of the funds and accounts did not have performance standards.

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 noted that ending balances for FY2000-01 shown in our Report No. 02-05's financial summaries were estimates provided by the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai'i State Public Library System, and Office of Hawaiian Affairs, and may not correspond to beginning balances for FY2001-02 presented in the financial summaries in this report. Transfers are reported as a net amount for each respective year.

Our work was performed from July 2006 to September 2006 in accordance with generally accepted government auditing standards. We did not audit the agencies' financial data; it is provided only for informational purposes.

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Chapter 2

Office of the Governor

This chapter presents the results of our review of one trust account established by the Office of the Governor. For the account we present a five-year financial summary, the purpose of the account, and a conclusion about its use. We do not provide a conclusion about the effectiveness of the program, its management, or whether the program should be continued.

Account Established Under Administrative Authority

Governor's Volunteer Programs and Services Account

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$74	\$38	\$0	\$0	\$0
Revenues	133	28	0	0	0
Interest	0	0	0	0	0
Expenditures	(169)	(66)	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$38	\$0	\$0	\$0	\$0
Encumbrances	0	0	0	0	0

This trust account was administratively established in 1983 to promote volunteerism in Hawai'i and support the Kilohana program, which recognizes outstanding volunteers throughout the State. Revenues for this account are generated through community donations, primarily from corporations. Trust account funds are used for expenses related to holding conferences, workshops, and recognition ceremonies on O'ahu and the neighbor islands. The account continues to serve the purpose for which it was created and requires no general fund appropriations.

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Chapter 3

Office of the Lieutenant Governor

This chapter presents the results of our review of three trust funds administered by the Office of the Lieutenant Governor. 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 were unable to present the FY2001-02 financial information for the Commission on the Status of Women Trust Fund since the Office of the Lieutenant Governor was unable to locate the related records, which were produced by the previous administration. We present first those funds established under statutory authority in alphabetical order followed by the fund established under administrative authority.

Funds Established Under Statutory Authority

Commission on the Status of Women Trust Fund, Section 367-5, HRS

Financial Data for Fiscal Years 2002-2005 (in thousands)

	FY2002	FY2003	FY2004	FY2005
Beginning Fund Balance	Not Provided	\$150	\$129	\$66
Revenues	Not Provided	0	0	1
Interest	Not Provided	0	0	0
Expenditures	Not Provided	(21)	(63)	(62)
Transfers*	Not Provided	0	0	(5)
Ending Fund Balance	Not Provided	\$129	\$66	\$0
Encumbrances	Not Provided	0	0	0

*Transfer was made to the Department of Human Services.

The financial summary for FY2001-02 is not presented since the Office of the Lieutenant Governor was unable to provide the necessary information and records.

Pursuant to Act 147, SLH 2005, this trust fund was transferred on June 22, 2005, from the Office of the Lieutenant Governor to the Department of Human Services. The fund was established in 1998 to receive contributions from private organizations and agencies as well as grants from state and federal sources for the Commission on the Status of Women program. The funds are to be used to develop long-range goals and coordinate research planning, programming, and action on the

opportunities, needs, problems, and contributions of women in Hawai‘i with regard to education, homemaking, civil and legal rights, labor and employment, and expanded community horizons. For example, the commission advocates for the enactment or revision of laws and policies that eliminate gender discrimination, and identifies and supports programs and projects that address women’s concerns and needs. Other major projects of the commission are Women’s Health Month, which began in 1994, and various initiatives for the prevention of violence against women. The fund served the purpose and intended beneficiaries for which it was created, required no general funds, and met the criteria for a trust fund while under the administration of the Office of the Lieutenant Governor.

Hawai‘i Election Campaign Fund, Section 11-217, HRS

Financial Data for Fiscal Years 2002-2004 (in thousands)

	FY2002	FY2003	FY2004
Beginning Fund Balance	\$5,178	\$5,037	\$434
Revenues	345	376	0
Interest	203	173	0
Expenditures	(689)	(841)	0
Transfers*	0	(4,311)	(434)
Ending Fund Balance	\$5,037	\$434	\$0
Encumbrances	0	0	0

*Transfers were made to the Department of Accounting and General Services.

Pursuant to Act 117, SLH 2003, the Campaign Spending Commission, and its related funds including the Hawai‘i Election Campaign Fund, was transferred from the Office of the Lieutenant Governor to the Department of Accounting and General Services in FY2003-04. This trust fund was established in 1979 to receive moneys collected from Hawai‘i taxpayers who designated \$2 of their income tax liability to the fund. The fund also receives other moneys, such as administrative fines and earned interest, and received general fund appropriations through FY1997-98. The primary purpose of the fund is to provide partial matching campaign contributions to candidates for elected office who qualify and apply for funding as provided by Section 11-222, HRS.

In addition to providing matching public funds, the fund has also paid for the administration and operations of the Campaign Spending Commission since FY1997-98. Currently, five full-time members staff the commission. The duties of the commission, detailed in Section 11-193, HRS, are primarily to regulate the campaign finances of candidates for elected state and county offices. The fund has performance standards. The fund served the purpose and intended

beneficiaries for which it was created, required no general funds, and met the criteria for a trust fund while under the administration of the Office of the Lieutenant Governor.

Fund Established Under Administrative Authority

Donation for Voter Registration Drive

Financial Data for Fiscal Years 2002-2004 (in thousands)

	FY2002	FY2003	FY2004
Beginning Fund Balance	\$0	\$0	\$0
Revenues	0	0	0
Interest	0	0	0
Expenditures	0	0	0
Transfers*	0	0	0
Ending Fund Balance	\$0	\$0	\$0
Encumbrances	0	0	0

*During the reporting period above, this fund carried a balance of \$153 that is not reflected due to rounding. There was no activity in this fund except in FY2004, when the fund, along with its \$153 balance, was transferred to the Department of Accounting and General Services.

Pursuant to Act 117, SLH 2003, the Office of Elections, and its related funds including the Donation for Voter Registration Drive fund, was transferred from the Office of the Lieutenant Governor to the Department of Accounting and General Services in FY2003-04. This trust fund was established in 1984 to receive monetary donations from businesses, community organizations, and private individuals for a voter registration campaign and educational programs for the 1984 elections. In 1987 donations received were used to purchase items for a statewide voter slogan contest. The contest was held to encourage eligible citizens of Hawai'i to register and vote and to increase participation in the upcoming election(s). The contest was open to all Hawai'i residents, ages five and above. Funds were used to purchase contest prizes, such as U.S. Savings Bonds and other gifts, for contest winners. The voter slogan contest was held in 1987, 1989, and 1991. Although a voter slogan contest has not been held since 1991, the fund is still maintained. The fund served the purpose for which it was originally created, was financially self-sustaining, and met the criteria for a revolving fund while under the administration of the Office of the Lieutenant Governor.

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Chapter 4

Department of Education and Hawai'i State Public Library System

This chapter presents the results of our review of nine revolving funds and eight trust funds of the Department of Education. Also presented are seven trust accounts of the Hawai'i State Public Library System. For each fund or account we present a five-year financial summary, the purpose of the fund or account, and conclusions about its use. We do not present any conclusions about the effectiveness of the program, its management, or whether the program should be continued. We present first the funds established by statutory authority, followed by the funds and accounts established under administrative authority in alphabetical order.

Department of Education Funds Established Under Statutory Authority

After-school Plus Program Revolving Fund, Section 302A-1149.5, HRS

Financial Data for Fiscal Years 2005-2006 (in thousands)

	FY2005	FY2006
Beginning Fund Balance	\$1,480	\$4,477
Revenues	7,898	8,381
Interest	61	59
Expenditures	(10,450)	(11,671)
Transfers*	5,488	4,780
Ending Fund Balance	\$4,477	\$6,026
Encumbrances	822	2,317

*Transfers in FY2005 were received from and made to the department's general fund (net receipt of \$5,388,000) and received from the Summer School Special Fund (\$100,000). Transfers in FY2006 were received from and made to the department's general fund (net receipt of \$4,880,000) and made to the Summer School Special Fund (\$100,000). The net transfers of general funds represent only the actual general funds used for the program during that year since all unexpended funds revert to the department's general fund.

Pursuant to Section 302A-1149.5, HRS, the After-school Plus Program Revolving Fund was established in 2004. The fund receives moneys consisting of participant fees and earned interest, legislative appropriations, and other revenue sources, which the department tracks in separate revolving, general, and special fund sub-accounts, respectively. The financial information presented for the After-school

Plus Program Revolving Fund is a summary of these three sub-accounts. These moneys are used to administer and operate the After-school Plus Program (A+ Program). The program provides affordable after-school child care services to latchkey children in public schools from kindergarten through grade six whose parents work, attend school, or are in job training programs. The A+ Program provides a safe, secure, and nurturing environment, and offers a variety of enjoyable activities to keep children active both mentally and physically. The fund serves the purpose for which it was originally created and reflects a clear link between the benefits sought and the charges made upon the users. However, since this fund receives general funds it is not self-sufficient and does not meet the criteria of a revolving fund.

Education Design and Construction Project Assessment Fund, Section 302A-1508, HRS

Financial Data for Fiscal Year 2006 (in thousands)

	FY2006
Beginning Fund Balance	\$647
Revenues	485
Interest	0
Expenditures	(431)
Transfers	0
Ending Fund Balance	\$701
Encumbrances	25

Pursuant to Act 51, SLH 2004, the Education Design and Construction Project Assessment Fund was transferred from the Department of Accounting and General Services to the Department of Education effective July 1, 2005. This revolving fund was established to defray the cost of carrying out construction projects managed by the department. These projects are assessed fees based on the superintendent's evaluation of the costs of services for capital improvements, repairs and maintenance, and repairs and alterations. The fund continues to serve the purpose for which it was created—to defray the cost of carrying out construction projects managed by the department. The fund reflects a clear link between the benefit sought and the charges made, requires no general funds, and meets the criteria for a revolving fund.

Education Research and Development Revolving Fund, Section 302A-305, HRS

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$0	\$0	\$0	\$103	\$160
Revenues	0	0	103	54	15
Interest	0	0	0	3	5
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$0	\$0	\$103	\$160	\$180
Encumbrances	0	0	0	0	0

This revolving fund was established in 2001 for the collection of revenues from the commercial exploitation of products and services developed by the department. The fund is used to support research and the development of innovative curriculum, instructional aids, related technologies, and the related administrative costs of seeking and maintaining such commercialization. For example, the fund has received revenue from royalties and the marketing and sublicensing of the department's Integrated Special Education System. The fund continues to serve the purpose for which it was created, reflects a clear link between the benefits sought and the charges made, requires no general fund appropriation, and meets the definition of a revolving fund.

Federal Grants Search, Development, and Application Revolving Fund, Section 302A-1405, HRS

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$213	\$471	\$1,336	\$2,488	\$3,245
Revenues	250	862	1,112	692	162
Interest	10	21	44	69	94
Expenditures	(2)	(18)	(4)	(4)	(90)
Transfers	0	0	0	0	0
Ending Fund Balance	\$471	\$1,336	\$2,488	\$3,245	\$3,411
Encumbrances	22	4	0	0	4

This fund was created in FY2000-01 to receive reimbursements or the recovery of administrative or central services costs incurred by the department in carrying out federal grant awards through assessment of an indirect cost rate as authorized by the federal government. This fund captures the indirect costs for discretionary competitive grants awarded

to the department by federal agencies. Fund revenues come from an indirect overhead assessment against expenditures of the federal discretionary grants. The fund is not limited to search and development applications but can be used for administrative purposes, such as developing program applications to secure additional revenues for the department. The fund can also be used for consultant services and operational expenses, including the hiring of temporary staff to administer the fund. The fund serves the purpose for which it was originally created, requires no general fund appropriations, and meets the criteria for a revolving fund.

**Hawai'i Teacher Standards Board Revolving Fund,
Section 302A-806, HRS**

Financial Data for Fiscal Years 2002-2004 (in thousands)

	FY2002	FY2003	FY2004
Beginning Fund Balance	\$1,497	\$1,617	\$863
Revenues	639	0	729
Interest	0	0	36
Expenditures	(519)	(754)	(693)
Transfers*	0	0	545
Ending Fund Balance	\$1,617	\$863	\$1,480
Encumbrances	0	0	171

*Transfer was received from the Functions of the Hawai'i Teacher Standards Board special fund.

Pursuant to Act 178, SLH 2002, the Legislature converted the fund to a special fund and the change was effected during FY2003-04. Therefore, financial information is only presented for FY2001-02 through FY2003-04. Additionally, the FY2003-04 financial information includes transactions and balances for the fund both as a revolving fund and a special fund. This fund was created in 1998 to support the Hawai'i Teacher Standards Board. The board establishes standards governing teacher licensing and credentials, conducts a cyclical review of those standards, and suggests revisions for their improvement. Based on these standards, the board issues, renews, revokes, suspends, and reinstates licenses and credentials and administers the interstate agreement related to licensing. The board is also responsible for approving Hawai'i teacher education programs that meet the standards it sets, and administering the National Board Certification Candidate Support Program. The fund finances operational and personnel costs, and any reimbursements for members' travel expenses incurred while on official board business. The primary source of revenue to the fund is the \$2 licensing fee collected via

deduction from teachers' every paycheck. We previously found that this fund acts more like a special fund than a revolving fund and it has since been re-classified.

School Bus Fare Revolving Fund, Section 302A-407.5, HRS

Financial Data for Fiscal Years 2003-2006 (in thousands)

	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$0	\$9	\$47	\$258
Revenues	9	104	264	1,225
Interest	0	1	3	3
Expenditures	0	(67)	(56)	(554)
Transfers	0	0	0	0
Ending Fund Balance	\$9	\$47	\$258	\$932
Encumbrances	0	0	2	12

This revolving fund was created in FY2002-03 to deposit school bus fares collected from students, parents, or guardians for state-provided school busing services. The benefits received are directly linked to the charges made upon the users because students, parents, or guardians who are assessed fees benefit from the bus services for the student. The fund serves the purpose for which it was created and reflects a clear link between the benefits sought and charges made upon the beneficiaries. The fund requires no general funds and meets the criteria of a revolving fund.

Storeroom Revolving Fund, Section 302A-1304, HRS

Financial Data for Fiscal Years 2002-2004 (in thousands)

	FY2002	FY2003	FY2004
Beginning Fund Balance	\$566	\$1,063	\$15
Revenues	2,022	711	0
Interest	33	0	0
Expenditures	(1,558)	(1,759)	0
Transfers*	0	0	(15)
Ending Fund Balance	\$1,063	\$15	\$0
Encumbrances	41	12	0

*Transfer was made to the general fund.

This fund was created in 1990 to purchase educational, office, and custodial supplies used by schools and the equipment and services needed to operate the department's storeroom. The fund continued to serve the purpose for which it was created and linkage did exist since

public schools used the items purchased from the storeroom. However, the storeroom was not self-sustaining since general fund appropriations paid for personnel and all operating costs of the storeroom. Therefore, this fund was closed in FY2003-04 in accordance with Act 158, SLH 2002.

**Department of
Education Funds
Established Under
Administrative
Authority**

Adult Education Revolving Fund

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$345	\$318	\$269	\$315	\$251
Revenues	235	185	275	159	235
Interest	14	10	7	7	11
Expenditures	(276)	(244)	(236)	(230)	(148)
Transfers	0	0	0	0	0
Ending Fund Balance	\$318	\$269	\$315	\$251	\$349
Encumbrances	52	31	42	16	31

This fund was created in 1970 to purchase books and supplies for re-sale to adult education students. Benefits received are directly related to user fees collected because adult students who are assessed fees benefit from the purchase of the supplies and books. The fund continues to serve the purpose for which it was originally created, requires no general funds, and meets the criteria for a revolving fund.

Alu Like Trust Fund

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$220	\$51	\$57	\$76	\$152
Revenues	280	376	389	388	300
Interest	0	0	0	0	0
Expenditures	(449)	(370)	(370)	(312)	(342)
Transfers	0	0	0	0	0
Ending Fund Balance	\$51	\$57	\$76	\$152	\$110
Encumbrances	31	17	35	32	23

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

Department of Education grants federal funds to Alu Like, Inc. Alu Like uses a portion of the federal funds for the department's vocational education services for native Hawaiians in the Windward, Central, Leeward, Maui, and Hawai'i Districts. Educational projects provide career education counseling for students, staff development programs, and curriculum development of vocational education programs. Past projects include Kailua High School's Project Kako'o, Waialua High School's Projects Yikes! Bikes and Ho'olaulima, Wai'anae High School's Hawaiian Seariders, Moloka'i High and Intermediate Schools' Hawai'i Alive Project, Kealakehe High School's Project Waveriders, and Honoka'a High School's Project Keoki. The fund continues to serve the purpose for which it was created and the intended beneficiaries—native Hawaiians in Windward, Central, Leeward, Maui, and Hawai'i district public schools. The fund requires no general funds and meets the criteria of a trust fund.

Athletic Trust Fund

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$264	\$255	\$261	\$402	\$447
Revenues	698	741	670	601	692
Interest	13	11	11	13	10
Expenditures	(720)	(746)	(540)	(549)	(751)
Transfers*	0	0	0	(20)	0
Ending Fund Balance	\$255	\$261	\$402	\$447	\$398
Encumbrances	76	59	65	95	88

*Transfer was made to the Donations and Gifts Trust Fund.

This fund was established over 30 years ago to account for funds collected from athletic event-related activities. The fund serves 44 high school athletic departments. Sources of revenues include admission fees collected from various sporting events, activity book sales, and donations to public school athletic programs. Beneficiaries are students participating in sports activities at the schools. Funds are expended for supplies, equipment, travel, and other expenses for various sports programs at the schools. The fund serves the purpose for which it was created and provides services to the intended beneficiaries—student athletes at the public schools. The fund requires no general fund appropriations and meets the criteria of a trust fund.

Donations and Gifts Trust Fund

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$745	\$1,129	\$1,385	\$1,774	\$2,129
Revenues	1,145	950	992	834	1,647
Interest	46	37	40	48	60
Expenditures	(778)	(756)	(653)	(529)	(585)
Transfers*	(29)	25	10	2	0
Ending Fund Balance	\$1,129	\$1,385	\$1,774	\$2,129	\$3,251
Encumbrances	167	94	81	58	146

*Transfers in FY2002, FY2003, and FY2004 were made to or received from the JTPA Work Hawai'i Job Training Program Fund. Transfers in FY2005 were made to the Foundation and Other Grants Trust Fund (\$18,400) and received from the Athletic Trust Fund (\$20,000).

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

Federal Revenue Maximization Fund

Financial Data for Fiscal Year 2002 (in thousands)

	FY2002
Beginning Fund Balance	\$10
Revenues	0
Interest	0
Expenditures	(10)
Transfers	0
Ending Fund Balance	\$0
Encumbrances	0

Pursuant to Act 11 of the 1995 Special Session, a statewide fund was established in the state treasury to aggressively pursue, collect, and distribute additional federal fund reimbursements. Proceeds collected from the federal government that were not previously claimed by the State for federally funded programs are deposited into the statewide fund. Federally funded state programs included those within the Departments

of Human Services, Education, and Health. The comptroller made expenditures and transfers from the statewide fund in proportional allocations established by the comptroller and the director of finance for departmental expenses related to federal fund reimbursement claims. Funds transferred by the comptroller to the department were deposited into the Federal Revenue Maximization (trust) Fund and could be expended for contracted consultant services to pursue further maximization of federal dollar reimbursements. The statewide fund was repealed on June 30, 1999, pursuant to Section 29-24, HRS, and the Federal Revenue Maximization Fund was subsequently terminated. Fund information is presented only for FY2001-02, the last year of operation.

Foundation and Other Grants Trust Fund

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$1,219	\$4,102	\$1,951	\$4,708	\$5,940
Revenues	4,129	422	5,814	4,657	3,016
Interest	60	93	78	78	137
Expenditures	(1,306)	(2,666)	(3,135)	(3,521)	(3,787)
Transfers*	0	0	0	18	0
Ending Fund Balance	\$4,102	\$1,951	\$4,708	\$5,940	\$5,306
Encumbrances	1,107	490	2,126	2,229	464

*Transfer was received from the Donations and Gifts Trust Fund.

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

JTPA Work Hawai'i Job Training Program Fund

Financial Data for Fiscal Years 2002-2005 (in thousands)

	FY2002	FY2003	FY2004	FY2005
Beginning Fund Balance	\$2	\$6	\$7	\$1
Revenues	121	182	5	0
Interest	0	0	0	0
Expenditures	(146)	(156)	(1)	0
Transfers*	29	(25)	(10)	(1)
Ending Fund Balance	\$6	\$7	\$1	\$0
Encumbrances	6	0	0	0

*Transfers in FY2002, FY2003, and FY2004 were received from or made to the Donations and Gifts Trust Fund. Transfer in FY2005 was made to the City and County of Honolulu.

This trust fund was established in 1986 to account for funds received from the City and County of Honolulu to provide job training programs specified by the Job Training Partnership Act that was succeeded by the Workforce Investment Act (WIA) of 1998 (Public Law 105-220). The City and County of Honolulu entered into a memorandum of agreement with the Department of Labor and Industrial Relations, Workforce Development Division, to serve as fiscal agent for various programs under the Oahu Workforce Investment Board. Funds are used by the department to provide pre-employment and occupational skills training services for WIA-eligible youth residing in the City and County of Honolulu as part of a flexible, coordinated, and decentralized system of local programs that should maximize employment opportunities for participants. In FY2004-05 this fund was closed and all remaining funds were returned to the City and County of Honolulu.

Non-Appropriated Local School Fund

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$11,895	\$12,566	\$13,186	\$14,369	\$15,698
Revenues	22,888	25,541	26,680	48,834	27,647
Interest	0	0	0	0	0
Expenditures	(22,217)	(24,921)	(25,497)	(47,505)	(25,660)
Transfers	0	0	0	0	0
Ending Fund Balance	\$12,566	\$13,186	\$14,369	\$15,698	\$17,685
Encumbrances	0	0	0	0	0

This trust fund was created in 1982 to account for money held in trust by the schools. Section 302A-1130, HRS, authorizes the department to assess and collect special fees and charges from students for co-curricular activities. Funds are deposited into insured checking or savings accounts and expended by individual schools. Sources of funds include collections from class dues, student association dues, yearbook fees, newspaper fees, school club dues, money-raising funds, excursion fees, and donations. This fund continues to serve the purpose for which it was created, requires no general funds, and meets the criteria for a trust fund.

Office of Hawaiian Affairs Fund

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$495	\$178	\$137	\$93	\$762
Revenues	101	12	2	755	95
Interest	0	0	0	0	0
Expenditures	(418)	(53)	(46)	(86)	(513)
Transfers	0	0	0	0	0
Ending Fund Balance	\$178	\$137	\$93	\$762	\$344
Encumbrances	46	35	18	3	62

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

‘Ōlelo-Educational Program Public TV Fund

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$866	\$597	\$516	\$441	\$480
Revenues	365	446	402	401	424
Interest	26	15	10	8	9
Expenditures	(660)	(542)	(487)	(370)	(320)
Transfers	0	0	0	0	0
Ending Fund Balance	\$597	\$516	\$441	\$480	\$593
Encumbrances	98	28	1	7	29

This trust fund was established in 1992 to account for funds received under contract with ‘Ōlelo: The Corporation for Community Television. ‘Ōlelo is responsible for managing the public, educational, and governmental television channels established by the State. ‘Ōlelo contracts with the department to provide educational programs to the community. For example, funding from ‘Ōlelo for the department’s Distance Learning Program has enabled new and expanded programming created for and with the community. Beneficiaries of this program are students, adults, teachers, and the homebound. The general public also benefits from the cablecast of department meetings, programs, and other information about special events and activities. The fund continues to serve its intended purpose and beneficiaries, meets the criteria of a trust fund and receives no general fund appropriations.

**Hawai'i State
Public Library
System Accounts
Established Under
Administrative
Authority**

Friends of the Library

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$3	\$3	\$3	\$2	\$3
Revenues	2	0	12	0	0
Interest	0	0	0	0	0
Expenditures	(2)	0	(13)	0	0
Transfers*	0	0	0	1	0
Ending Fund Balance	\$3	\$3	\$2	\$3	\$3
Encumbrances	0	0	0	0	0

*Transfer was received from the Hawai'i (County) Public Library-Donations & Gifts account.

This trust account was first established in 1974 as the Friends of the Library account to receive donations by the Friends of the Library of

Hawaii to any library or section within the Hawai'i State Public Library System. Funds can be used to purchase library books, materials, equipment, or services that would benefit the library and library patrons. This account meets the criteria of a trust account as it requires no general fund appropriations and continues to serve the purpose for which it was originally created.

Hawai'i Public Library Payroll Collections

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$0	\$0	\$0	\$0	\$0
Revenues	0	1	0	0	0
Interest	0	0	0	0	0
Expenditures	0	(1)	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	0	0	0	0	0

This trust account was established in 1996 as a temporary holding account to deposit partial collections of salary overpayments from employees. When the total overpayment is collected, funds are transferred to the Department of Accounting and General Services. This account meets the criteria of a trust account as it requires no general fund appropriations and serves the purpose for which it was originally created.

Hawai'i (County) Public Libraries-Donations & Gifts

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$22	\$22	\$24	\$27	\$30
Revenues	2	4	4	7	5
Interest	0	0	0	0	0
Expenditures	(3)	(2)	(1)	(3)	(6)
Transfers*	1	0	0	(1)	0
Ending Fund Balance	\$22	\$24	\$27	\$30	\$29
Encumbrances	0	0	0	0	0

*Transfer in FY2002 was received from the O'ahu Public Libraries-Donations & Gifts account. Transfer in FY2005 was made to the Friends of the Library account.

This trust account was first established in FY1961-62 for the purpose of receiving donations by individuals or groups to the Hawai'i (County) Public Libraries to purchase books, materials, equipment, or services.

This account provides library services and programs for the benefit of library patrons. This account meets the criteria of a trust account as it requires no general fund appropriations and continues to serve the purpose for which it was originally created.

HSL & LBPH-Donations & Gifts

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$123	\$325	\$313	\$365	\$452
Revenues	344	32	56	90	9
Interest	0	8	8	11	10
Expenditures	(342)	(53)	(12)	(14)	(12)
Transfers*	200	1	0	0	0
Ending Fund Balance	\$325	\$313	\$365	\$452	\$459
Encumbrances	0	7	1	0	1

*Transfers were received from the O'ahu Public Libraries-Donations & Gifts account.

This trust account was first established as the Donations for Transcribing Services account and was re-designated on July 1, 2000, as the HSL (Hawai'i State Library) & LBPH (Library for the Blind & Physically Handicapped)-Donations & Gifts account. The account originally received donations from individuals or groups to the LBPH to purchase supplies and equipment for Braille transcribing services. As of July 1, 2000, the account was re-designated to include donations for the LBPH and the HSL. The account provides library services, programs, and Braille transcribing services based on donations from individuals or groups for the benefit of library patrons. This account meets the criteria of a trust account as it serves the purpose for which it was re-designated and requires no general fund appropriations.

HSPLS Computer Supplies-Donations

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$24	\$30	\$50	\$74	\$113
Revenues	11	27	35	45	50
Interest	0	1	2	2	3
Expenditures	(5)	(8)	(13)	(8)	(20)
Transfers	0	0	0	0	0
Ending Fund Balance	\$30	\$50	\$74	\$113	\$146
Encumbrances	0	0	0	0	0

This trust account was first established in FY1961-62 as the Maui Public Library-Donations & Gifts trust account and it was re-designated on July 1, 2000, as the HSPLS (Hawai'i State Public Library System) Computer Supplies-Donations account. The account receives donations from individuals or groups to replenish supplies and computer printer paper and toner for state libraries. This account meets the criteria of a trust account as it requires no general fund appropriations and serves the purpose for which it was re-designated.

Kaua'i & Maui Public Libraries-Donations & Gifts

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$6	\$8	\$9	\$7	\$8
Revenues	2	6	3	2	2
Interest	0	0	0	0	0
Expenditures	0	(5)	(5)	(1)	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$8	\$9	\$7	\$8	\$10
Encumbrances	0	0	0	0	0

This account was first established in FY1961-62 as the Kaua'i Public Library-Donations & Gifts trust account. It was re-designated on July 1, 2000, as the Kaua'i & Maui-Donations & Gifts trust account. The account receives donations from individuals or groups to libraries on Kaua'i and Maui to purchase books, materials, equipment, or services for the purposes of providing programs and services to library patrons. This account meets the criteria of a trust account as it requires no general fund appropriations and serves the purpose for which it was created.

O'ahu Public Libraries-Donations & Gifts

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$252	\$90	\$113	\$170	\$241
Revenues	58	29	71	89	11
Interest	0	3	3	6	5
Expenditures	(19)	(8)	(17)	(24)	(24)
Transfers*	(201)	(1)	0	0	0
Ending Fund Balance	\$90	\$113	\$170	\$241	\$233
Encumbrances	0	0	0	0	1

*Transfers in FY2002 were made to the HSL & LBPH-Donations & Gifts trust account (\$200,000) and the Hawai'i (County) Public Libraries-Donations & Gifts trust account (\$1,000). Transfer in FY2003 was made to the HSL & LBPH-Donations & Gifts trust account.

This trust account was first established in FY1961-62 as the Library of Hawai'i-Donations & Gifts trust account. The account was re-designated as the O'ahu Public Libraries-Donations & Gifts trust account on July 1, 2000. The account receives donations from individuals or groups for libraries to purchase books, materials, equipment, or services for the purpose of providing programs and services to library patrons. This account meets the requirements of a trust account as it requires no general fund appropriations and continues to serve the purpose for which it was created.

Chapter 5

Office of Hawaiian Affairs

This chapter presents the results of our review of one revolving fund and four trust funds established for the Office of Hawaiian Affairs (OHA). 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 first the fund established by the State Constitution, followed by those funds established under administrative authority in alphabetical order.

Fund Established by the State Constitution

Public Land Trust, Hawai'i State Constitution, Article XII, Section 4

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$340,829	\$297,267	\$318,120	\$354,695	\$377,299
Revenues	41	17,729	9,837	10,832	30,497
Interest	(27,915)	18,528	42,530	32,302	33,724
Expenditures	(15,716)	(11,179)	(15,763)	(20,530)	(26,754)
Transfers*	28	(4,225)	(29)	0	0
Ending Fund Balance	\$297,267	\$318,120	\$354,695	\$377,299	\$414,766
Encumbrances	4,735	2,957	5,698	6,286	10,897

*Transfer in FY2002 was received from the Native Hawaiian Rights Fund. Transfers in FY2003 were made to the Native Hawaiian Revolving Loan Fund (\$4,000,000) and to the federal and general funds (\$225,000). Transfer in FY2004 was made to the general fund.

This trust fund was established in 1981 to account for the Office of Hawaiian Affairs' portion of revenues derived from the Public Land Trust as defined in Section 10-2, HRS. OHA receives 20 percent of all revenue derived from the Public Land Trust. These revenues are expended by OHA, as approved by its Board of Trustees, for the betterment of native Hawaiian conditions.

On September 12, 2001, Hawai'i's Supreme Court in *OHA v. State of Hawai'i* held that sections in the law defining the means by which ceded lands' revenues are to be paid to OHA conflicted with federal law and therefore, were invalid. This resulted in the dismissal of OHA's claim

for a pro rata share of ceded land revenues from the State for moneys owed from various projects situated on ceded lands and from interest earned on withheld revenues.

On February 11, 2003, the governor issued Executive Order 03-03, reestablishing OHA’s pro rata share of ceded land revenues at 20 percent. An additional \$9,552,973 was appropriated from the general fund and certain special and revolving funds pursuant to Act 34, SLH 2003. This sum represented the 20 percent of receipts for use of lands in the public trust that were not transferred to OHA as a result of the 2001 *OHA v. State of Hawai‘i* ruling. The passage of Act 178 during the 2006 legislative session established the annual sum of \$15,100,000 as OHA’s pro rata portion of the Public Land Trust and appropriated \$17,500,000 out of the general revenues to redress underpayment for use of public lands from July 1, 2001 through June 30, 2005.

For the purposes of this report, all accounts funded with Public Land Trust funds (as legislatively and board mandated) were combined to show the total revenues and expenditures related to the Public Land Trust. Act 176, SLH 1996, changed the designation of Public Land Trust funds from “special funds” to “trust funds.” The Public Land Trust, also known as OHA’s Native Hawaiian Trust Fund, continues to serve the purpose for which it was created and provides benefits and services to the intended beneficiaries. The fund requires no general fund appropriations and meets the criteria of a trust fund.

Funds Established Under Administrative Authority

Affordable Housing Program

Financial Data for Fiscal Years 2002-2004 (in thousands)

	FY2002	FY2003	FY2004
Beginning Fund Balance	\$42	\$42	\$42
Revenues	0	0	0
Interest	0	0	0
Expenditures	0	0	(42)
Transfers	0	0	0
Ending Fund Balance	\$42	\$42	\$0
Encumbrances	0	0	0

This trust fund was established in 1995 to receive revenues for the Office of Hawaiian Affairs’ Waimānalo Kupuna Housing construction project. An initial \$100,000 was received from the Federal Home Loan Bank of Seattle’s Affordable Housing Program. The housing project is an active retirement community for Hawaiian elderly in Waimānalo. Located on a

seven-acre parcel of the Department of Hawaiian Home Lands, the community consists of clustered living units for low and moderate-income elderly Hawaiians, landscaped grounds, and a multi-purpose community center. During 1997, the name of this fund was changed from the Waimānalo Kupuna Project Fund to the Affordable Housing Program Trust Fund. This was done to increase the scope of the fund when the Office of Hawaiian Affairs received another grant award to subsidize self-help housing projects in Kekaha and Waiākea. The fund was created to receive grant revenues for housing projects. In FY2003-04 the fund was closed and all unencumbered funds were returned to the grantor.

Hawaiian Projects Fund

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$253	\$302	\$347	\$376	\$378
Revenues	49	45	52	59	90
Interest	0	0	0	0	0
Expenditures	0	0	(23)	(57)	(50)
Transfers	0	0	0	0	0
Ending Fund Balance	\$302	\$347	\$376	\$378	\$418
Encumbrances	0	0	0	0	0

This trust fund was established in 1987 to receive revenues from the sale of goods or services directed at the Hawaiian community. Major revenue sources for this fund include sales of advertising space in OHA's monthly newspaper, *Ka Wai Ola O OHA*; OHA's portion of proceeds from the sale of publications or books; and private donations designated for OHA's programs. The fund supplements the costs of OHA's program activities such as printing of the monthly newspaper, public information products such as books and videos, equipment to produce public information videos, and software related to special projects. This fund also supplements the costs for special projects related to OHA's programs, as determined by OHA's administrator. The fund continues to serve the purpose for which it was created and the intended beneficiaries—the Hawaiian community. The fund requires no general funds and meets the criteria of a trust fund.

Native Hawaiian Revolving Loan Fund

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$17,111	\$19,045	\$24,247	\$24,692	\$25,489
Revenues	1,000	0	0	0	0
Interest	959	1,075	185	576	563
Expenditures	(25)	127	260	221	20
Transfers*	0	4,000	0	0	0
Ending Fund Balance	\$19,045	\$24,247	\$24,692	\$25,489	\$26,072
Encumbrances	0	0	0	84	30

*Transfer was received from the Public Land Trust fund.

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

Native Hawaiian Rights Fund

Financial Data for Fiscal Years 2002-2006 (in thousands)

	FY2002	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$246	\$236	\$265	\$282	\$289
Revenues	35	29	17	7	0
Interest	0	0	0	0	0
Expenditures	(17)	0	0	0	0
Transfers*	(28)	0	0	0	0
Ending Fund Balance	\$236	\$265	\$282	\$289	\$289
Encumbrances	0	0	0	0	0

*Transfer was made to the Public Land Trust fund.

This trust fund was established in 1987 to receive OHA's portion of legal fees recovered through settlements of Native Hawaiian Legal Corporation land title cases. The corporation provides legal services to native Hawaiians defending their property interests in quiet title actions (formal court actions by a land owner to extinguish or acquire an unclouded title). Typically, these actions are initiated against kuleana parcels (defined by Section 669-2, HRS, to be "land granted to native tenants pursuant to L 1850, p.202") situated within a larger land holding.

This fund also receives settlements recovered in connection with quiet title actions in which OHA is joined as a defendant. OHA uses these funds to protect or represent the interests of native Hawaiians in such instances as water rights hearings and historic site protection. Although the Native Hawaiian Rights Fund was established by the OHA Board of Trustees in 1987, it was not requested to be set up as a separate fund in the State's Financial Accounting and Management Information System until 1992, when kuleana settlements (court-ordered cash payments to quiet or remove the cloud on title to the larger property owner by "buying" kuleana interest) were also included in this fund by the Board of Trustees. In FY2002, as recommended in our Report No. 02-05, *Review of Revolving Funds, Trust Funds, and Trust Accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai'i State Public Library System, and Office of Hawaiian Affairs*, the Individual Development Account program was transferred from the Native Hawaiian Rights Fund to the Public Land Trust fund. The fund continues to serve the purpose for which it was created and the intended beneficiaries. The fund requires no general funds and meets the criteria of a trust fund.

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Responses of the Affected Agencies

Comments on Agency Responses

On October 24, 2006, we transmitted a draft of this review to the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai'i State Public Library System, and Office of Hawaiian Affairs. A copy of the transmittal letter to the Office of the Governor is included as Attachment 1. Similar letters were sent to the Office of the Lieutenant Governor, Department of Education and Hawai'i State Public Library System, and Office of Hawaiian Affairs. A copy of the responses of the Office of the Governor, Department of Education, and Office of Hawaiian Affairs are included as Attachments 2, 3, and 4, respectively. The Office of the Lieutenant Governor and Hawai'i State Public Library System were in general agreement in their exit conferences and did not submit responses.

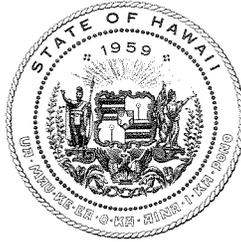
The Office of the Governor offered no comments.

Although the Board of Education did not submit a response, the Department of Education did submit a response and agreed with our conclusion that the After-School Plus Program Revolving Fund did not meet the criteria of a revolving fund. The department noted that it would evaluate the need to amend the statute to comply with fund requirements.

The Office of Hawaiian Affairs agreed with our review of its funds.

ATTACHMENT 1

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



MARION M. HIGA
State Auditor

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

October 24, 2006

COPY

The Honorable Linda Lingle
Governor of the State of Hawai'i
State Capitol, Fifth Floor
Honolulu, Hawai'i 96813

Dear Governor Lingle:

Enclosed for your information are three copies, numbered 6 to 8, of our confidential draft report, *Review of Revolving Funds, Trust Funds, and Trust Accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai'i State Public Library System, and Office of Hawaiian Affairs*. We ask that you telephone us by Thursday, October 26, 2006, 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 Tuesday, October 31, 2006.

The Office of the Lieutenant Governor, Board of Education, Department of Education, Hawai'i State Public Library System, Office of Hawaiian Affairs, and presiding officers of the two houses of the Legislature have also been provided copies of this confidential draft report.

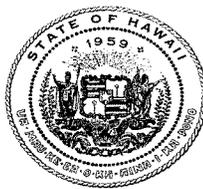
Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

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

Marion M. Higa
State Auditor

Enclosures



EXECUTIVE CHAMBERS

HONOLULU

LINDA LINGLE
GOVERNOR

October 30, 2006

RECEIVED

2006 NOV -2 AM 8:53

OFC. OF THE AUDITOR
STATE OF HAWAII

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

Dear Ms. Higa:

Thank you for the opportunity to review the Office of the Auditor's draft *Review of Revolving Funds, Trust Funds, and Trust Accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawaii State Public Library System, and Office of Hawaiian Affairs.*

We have reviewed the above referenced report and have no comments or recommendations.

If your staff has any questions they may call Ms. Michelle Macias at 586-0293.

Sincerely,

Bob Awana
Chief of Staff

LINDA LINGLE
GOVERNOR



PATRICIA HAMAMOTO
SUPERINTENDENT

**STATE OF HAWAII
DEPARTMENT OF EDUCATION**

P.O. BOX 2360
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

October 30, 2006

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

RECEIVED

2006 OCT 31 PM 2:52

OFC. OF THE AUDITOR
STATE OF HAWAII

Dear Ms. Higa:

We appreciate the opportunity to comment on your report titled *“Review of Revolving Funds, Trust Funds and Trust Accounts of the Office of the Governor, Office the Lieutenant Governor, Department of Education and Hawaii State Library System and Office of Hawaiian Affairs.”*

We would like to comment on the After-school Plus Program Revolving Fund. One criterion that was used to define revolving funds was the fund “demonstrates the capacity to be financially self-sustaining.”

We agree that this revolving fund is not self-sustaining, by definition, as it requires general funds to administer and operate the program. To ensure that the nature of the program’s fiscal needs is classified in the proper fund, we will evaluate the need to amend Section 302A-1149.5, HRS to ensure compliance with the appropriate fund requirements.

Very truly yours,

A handwritten signature in cursive script that reads "Patricia Hamamoto".

Patricia Hamamoto
Superintendent

PH:DY



Office of Hawaiian Affairs

October 30, 2006

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

RECEIVED

2006 OCT 31 PM 2:06

OFC. OF THE AUDITOR
STATE OF HAWAII

Aloha Ms. Higa:

Thank you for your recent transmittal of the report on your review of revolving funds, trust funds and trust accounts of the Office of Hawaiian Affairs.

As you said, "...OHA's Native Hawaiian Trust Fund continues to serve the purpose for which it was created and provides benefits and services to the intended beneficiaries." We are grateful for your findings and we appreciate the diligence your office demonstrated in reaching your conclusions.

Office of Hawaiian Affairs' staff reports that your staff was exemplary in our mutual working relationship. We appreciate the thoroughness and professionalism they demonstrated and we look forward to continued constructive joint efforts in future engagements.

Mahalo Nui,

A handwritten signature in black ink, appearing to read 'S. Haunani Apolliona', written over a horizontal line.

Trustee S. Haunani Apolliona
Chairperson, Board of Trustees