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

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

Report No. 07-07
October 2007



THE AUDITOR
STATE OF HAWAI'I

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.



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OVERVIEW

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

Report No. 07-07, October 2007

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 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 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 32 funds and accounts we reviewed this year, 5 were revolving funds, 11 were trust funds, and 16 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 Departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation.



The Departments of Public Safety and Taxation were in general agreement in their exit conferences and did not submit responses.

The Department of Human Resources Development agreed with our review of its funds.

The Department of Labor and Industrial Relations generally agreed 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. We continue to point out that that \$8.9 million fund balance is far in excess of the approximately \$62,000 it needs for average annual expenses.

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A Report to the
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Hawai'i

Submitted by

THE AUDITOR
STATE OF HAWAI'I

Report No. 07-07
October 2007

Foreword

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

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 Departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation.

We wish to express our appreciation for the cooperation and assistance extended to us by the officials and staff of the Departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation.

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 Departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation. 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 Departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation. The first report conducted in 1997 (Report No. 97-20) reviewed 35 revolving funds, trust funds, and trust accounts. The second report conducted in 2002 (Report No. 02-15) reviewed 37 revolving funds, trust funds, and trust accounts. In this report, we reviewed 32 revolving funds, trust funds, and trust accounts.

Background

In 1990, the Legislature, through Act 240, Session Laws of Hawai'i (SLH) 1990, 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 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 and 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. 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 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 (FY2002-03 to FY2006-07), 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 Departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation during the five-year period under review.

We researched statutes, session laws, legislative history, and other supporting documents to determine each fund's or account's intent and purpose. We also reviewed performance standards reported by the agencies and other documents as appropriate. However, similar to our previous review, we determined that the standards identified were pertinent to our review in only one case—the State Deferred Compensation Plan Trust Fund administered by the Department of Human Resources Development.

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 FY2001-02 shown in our Report No. 02-15 financial summaries were estimates provided by the Departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation, and therefore may not correspond to actual beginning balances for FY2002-03 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 2007 to August 2007 according to 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

Department of Human Resources Development

This chapter presents the results of our review of two trust funds of the Department of Human Resources Development. For each fund we present a five year financial summary, the purpose of the fund, and the 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 the administrative authority in alphabetical order.

Fund Established Under Statutory Authority

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

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$795,749	\$859,118	\$950,425	\$1,058,644	\$1,165,420
Revenues	152,391	133,826	166,429	154,606	216,077
Interest	0	0	0	0	0
Expenditures	(89,022)	(42,519)	(58,210)	(47,830)	(60,665)
Transfers	0	0	0	0	0
Ending Fund Balance	\$859,118	\$950,425	\$1,058,644	\$1,165,420	\$1,320,832
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 participant contributions and related investment earnings. The plan is overseen by a board of trustees, which contracts with CitiStreet LLC to serve as the plan’s third-party administrator and State Street Bank and Trust to serve as the plan’s custodian. The fund holds voluntary contributions and investment earnings for the benefit of employees who elect to defer a portion of their compensation until after leaving government service. Additionally, the fund supports all of the administrative expenses for the deferred compensation plan. 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 Hawai'i Non-Indemnity Payments Fund

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$0	\$0	\$0	\$0	\$0
Revenues	940	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(940)	0	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$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 Hawai'i employees whose injury dates were prior to July 1, 1999. The fund carries a minimal balance (\$61) and has not been active since FY2002-03, as the contract to provide claims management services for the university was not renewed at the end of the contract period, June 30, 2003. Since this fund is no longer in use, we recommend that it be closed and the remaining balance properly disbursed.

Chapter 3

Department of Labor and Industrial Relations

This chapter presents the results of our review of two revolving funds, five trust funds, and four trust accounts of the Department of Labor and Industrial Relations. For each fund or account we present a five year financial summary, the purpose of the fund or account, and the 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 the administrative authority in alphabetical order.

Inconsistencies and Confusion in Classifying and Operating Funds Persist

Several funds in the Department of Labor and Industrial Relations provide evidence to further illustrate a point we have made in previous reports: that funds are classified and 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 Hawai'i Revised Statutes. The department has at least five funds with conflicting classifications. For example, the Special Fund for Disability Benefits, specifically designated in the Hawai'i 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 2003 – 2006 (in thousands)

	FY2003	FY2004	FY2005	FY2006
Beginning Fund Balance	\$1,616	\$535	\$3	\$3
Revenues	937	0	0	0
Interest	0	1	0	0
Expenditures	(885)	0	0	0
Transfers*	(1,133)	(533)	0	(3)
Ending Fund Balance	\$535	\$3	\$3	\$0
Encumbrances	\$0	\$0	\$0	\$0

*Pursuant to Act 142, SLH 1998, transfer in FY2003 was made to the state general fund as the balance of the fund exceeded \$1.2 million. Transfers in FY2004 and FY2006 were to the state general fund to close out the fund, pursuant to Act 178, SLH 2003.

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 continued to serve the purpose for which it was created, reflected a clear link between the benefits sought and the charges made, required no general fund appropriation, and met the definition of a revolving fund. However, pursuant to Act 178, SLH 2003, the fund was repealed on June 29, 2003, and the remaining unexpended and unencumbered balance was subsequently transferred to the state general fund. The fund was terminated on June 30, 2006.

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

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$3,706	\$2,081	\$1,981	\$2,149	\$2,362
Revenues	975	1,048	998	1,229	1,052
Interest	0	0	0	0	0
Expenditures	(2,600)	(1,148)	(830)	(1,016)	(1,216)
Transfers	0	0	0	0	0
Ending Fund Balance	\$2,081	\$1,981	\$2,149	\$2,362	\$2,198
Encumbrances	\$0	\$0	\$0	\$0	\$100

This fund was established in 1991 to assist employers and workers by providing them with programs to improve the long-term employability of Hawai'i'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 and retraining programs. Revenues are primarily from a 0.01 percent employer assessment on employees' wages that are taxable for unemployment insurance. Funds are leveraged with private contributions for greater impact. Because training should be tightly linked to workplace competencies, new programs seek to develop industry-wide certifications for skills acquired. The fund continues to serve the purpose for which it was created and provides services to the intended beneficiaries. The fund receives no general fund appropriations and meets the criteria of a trust fund.

However, this fund was statutorily established 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 Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$0	\$0	\$0	\$0	\$157
Revenues	0	0	0	156	142
Interest	0	0	0	1	8
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$0	\$0	\$0	\$157	\$307
Encumbrances	\$0	\$0	\$0	\$0	\$0

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 certification process ensures a minimum competency level for operators and assures the employer that the crane operators they employ have received appropriate training. The fund is expected to serve the purpose for which it was created and reflects a clear link between the

benefits sought and the charges made upon beneficiaries. The fund requires no general funds and meets the criteria of a revolving fund. However, we cannot determine its self-sufficiency until it becomes operational.

Special Compensation Fund, Section 386-151, HRS

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$18,544	\$23,589	\$22,775	\$21,641	\$20,396
Revenues	21,932	18,359	15,458	14,969	13,388
Interest	745	570	597	708	796
Expenditures	(17,632)	(19,743)	(17,189)	(16,922)	(19,742)
Transfers	0	0	0	0	0
Ending Fund Balance	\$23,589	\$22,775	\$21,641	\$20,396	\$14,838
Encumbrances	\$0	\$0	\$0	\$393	\$107

This fund was established in 1937 to enhance the employability of persons with pre-existing injuries, to pay benefits in excess of employer liability limits under the law, and to pay benefits due to employees of delinquent employers. The fund also 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 continues to serve the purpose for which it was originally created and provides services to the intended beneficiaries. The fund receives no general fund appropriations and meets the criteria of a trust fund.

However, the Special Compensation Fund was statutorily established as a special fund. In 1994, the attorney general concluded the fund is a trust fund or functions as a trust fund. We recommend the department clarify the classification of this fund and propose legislation if necessary.

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

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$7,825	\$8,057	\$8,179	\$8,325	\$8,579
Revenues	1	7	6	3	1
Interest	284	201	221	308	371
Expenditures	(53)	(86)	(81)	(57)	(35)
Transfers	0	0	0	0	0
Ending Fund Balance	\$8,057	\$8,179	\$8,325	\$8,579	\$8,916
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was established in 1969 to pay benefits to individuals who become temporarily disabled while unemployed and who 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 serves the purpose for which it was created and provides services to the intended beneficiaries. The fund requires no general fund appropriations and meets the criteria 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 and propose legislation if necessary. Also, we reiterate our previous recommendation that the unneeded cash from this fund be transferred to the general fund, as its fund balance remains far in excess of operating needs.

Special Premium Supplementation Fund, Section 393-41, HRS

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$3,434	\$3,482	\$3,479	\$3,367	\$3,259
Revenues	0	1	6	0	1
Interest	124	87	92	126	137
Expenditures	(76)	(91)	(210)	(234)	(309)
Transfers	0	0	0	0	0
Ending Fund Balance	\$3,482	\$3,479	\$3,367	\$3,259	\$3,088
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. The fund serves the purpose for which it was created and provides services to the intended beneficiaries. The fund requires no general fund appropriations and meets the criteria of a trust 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 and propose legislation if necessary.

Unemployment Compensation Fund, Section 383-121, HRS

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$296,884	\$313,690	\$358,034	\$411,643	\$487,002
Revenues	180,250	182,287	139,732	151,388	147,344
Interest	14,200	20,292	20,905	27,057	24,174
Expenditures	(177,644)	(158,235)	(107,028)	(103,086)	(112,179)
Transfers*	0	0	0	0	(626)
Ending Fund Balance	\$313,690	\$358,034	\$411,643	\$487,002	\$545,715
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfers were made to the Reed Act Special Fund (\$42,842) and the Unemployment Insurance Administration Fund (\$582,980).

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 serves the purpose for which it was created and provides services to the intended beneficiaries. The fund requires no general fund appropriations and meets the criteria 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 and propose legislation if necessary.

**Accounts
Established Under
Administrative
Authority**

Non-Profit Employers Deposit Account

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$611	\$650	\$753	\$784	\$821
Revenues	42	105	32	37	63
Interest	0	0	0	0	0
Expenditures	(3)	(2)	(1)	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$650	\$753	\$784	\$821	\$884
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 Hawai'i 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. This account meets the criteria for a trust account as it requires no general fund appropriations and serves the purpose for which it was originally created.

Temporary Deposits Account

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$33	\$2	\$2	\$2	\$2
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(31)	0	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$2	\$2	\$2	\$2	\$2
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account was established in 1970 as a holding account for bonds posted upon filing appeals to the Hawai'i 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 no longer serves its original purpose as bonds are no longer needed to file appeals. This account does not meet the criteria for a trust account and should be closed. The department recognizes that the account is no longer needed and will close the account once the remaining funds are properly disbursed.

Temporary Disability Insurance Account

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$5	\$9	\$6	\$0	\$1
Revenues	4	0	0	1	0
Interest	0	0	0	0	0
Expenditures	0	(3)	(6)	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$9	\$6	\$0	\$1	\$1
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. 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.

Wage Claim Fund Account

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$905	\$552	\$1,973	\$2,679	\$2,518
Revenues	197	1,809	1,054	43	631
Interest	0	0	0	0	0
Expenditures	(550)	(388)	(348)	(204)	(1,679)
Transfers	0	0	0	0	0
Ending Fund Balance	\$552	\$1,973	\$2,679	\$2,518	\$1,470
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. 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.

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Chapter 4

Department of Public Safety

This chapter presents the results of our review of three revolving funds, two trust funds, and six trust accounts of the Department of Public Safety. For each fund or account we present a five year financial summary, the purpose of the fund or account, and the 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.

Funds Established Under Statutory Authority

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

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$606	\$591	\$403	\$541	\$494
Revenues	343	346	399	409	451
Interest	0	0	0	0	0
Expenditures	(248)	(334)	(261)	(456)	(583)
Transfers*	(110)	(200)	0	0	0
Ending Fund Balance	\$591	\$403	\$541	\$494	\$362
Encumbrances	\$64	\$61	\$113	\$0	\$30

*Transfers in FY2003 (\$100,000) and FY2004 were made to the State Treasury as mandated by the Legislature. Transfer in FY2003 for \$10,000 was made to the Equipment and Expenses for the Medical Use of Marijuana account.

This fund was established for the purpose of: (1) offsetting the cost of the electronic prescription accountability system, (2) registration and control of the manufacture, distribution, prescription, and dispensation of controlled substances and regulated chemicals, (3) processing and issuance of a patient registry identification certificate, and (4) funding positions authorized by the Legislature. The fund's revenues are from all registration fees relating to the manufacture and handling of controlled substances, regulated chemicals, and medical use of marijuana. The fund supports the Narcotics Enforcement Division's registration section, which handles the registration, recordation, verification, and issuance of certificates and permits; electronic prescription monitoring program; pharmacy alert system; and investigator (four), clerk typist (one), and

account clerk (one) positions. The fund benefits all persons who administer, prescribe, dispense, or handle any controlled substances to include all hospitals and clinics, medical professionals, and researchers; all manufacturers and distributors of regulated chemicals for the manufacture of controlled substances; and all persons who qualify under Hawai'i's Medical Use of Marijuana Program to utilize marijuana for medical purposes. The fund serves the purpose for which it was created, reflects a clear link between the benefits sought and charges made, requires no general fund appropriation, and meets the criteria of a revolving fund.

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

Financial Data For Fiscal Years 2003-2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$175	\$254	\$114	\$296	\$453
Revenues	4,473	3,387	4,881	5,371	5,132
Interest	0	0	0	0	0
Expenditures	(4,392)	(3,527)	(4,699)	(5,214)	(5,335)
Transfers*	(2)	0	0	0	0
Ending Fund Balance	\$254	\$114	\$296	\$453	\$250
Encumbrances	\$195	\$168	\$92	\$170	\$401

*Transfer was made to the Crime Victim Compensation Commission to correct a prior error.

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 benefits received are directly linked to the charges made upon the users because non-profit organizations, state, and other government agencies receive cost-effective products and services produced by the inmates. The fund continues to serve the purpose for which it was created, reflects a clear link between the benefits sought and charges made, requires no general fund appropriation, and meets the criteria of a revolving fund.

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 reiterate our prior report's recommendation for 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 2003-2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$4	\$4	\$4	\$4	\$4
Revenues	4	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(4)	0	0	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$4	\$4	\$4	\$4	\$4
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, Read-to-me Program, Sisters Program, and Waiawa Father/Son 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.

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

Financial Data For Fiscal Years 2003-2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$1,050	\$1,049	\$1,097	\$1,110	\$1,134
Revenues	5,039	5,109	5,268	4,845	5,497
Interest	0	0	0	0	0
Expenditures	(5,040)	(5,061)	(5,255)	(4,821)	(5,382)
Transfers	0	0	0	0	0
Ending Fund Balance	\$1,049	\$1,097	\$1,110	\$1,134	\$1,249
Encumbrances	\$0	\$0	\$0	\$0	\$0

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 6,406 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. 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.

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

Financial Data For Fiscal Years 2003-2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$820	\$375	\$35	\$40	\$24
Revenues	34	39	37	0	0
Interest	0	0	0	0	0
Expenditures	(69)	(59)	(32)	(16)	(8)
Transfers*	(410)	(320)	0	0	0
Ending Fund Balance	\$375	\$35	\$40	\$24	\$16
Encumbrances	\$1	\$4	\$0	\$0	\$0

*Transfers in FY2003 and FY2004 were made to the State Treasury as mandated by the Legislature.

Three revolving funds were established in 1989 for stores at the Oahu Community, Hālawā, 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. 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 fund appropriations and meets the criteria of a revolving fund.

Fund and Accounts Established Under Administrative Authority

Administrator/Inmate Activity Account

Financial Data For Fiscal Years 2003-2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$42	\$87	\$49	\$27	\$43
Revenues	79	23	37	53	65
Interest	0	0	0	0	0
Expenditures	(34)	(61)	(59)	(37)	(50)
Transfers	0	0	0	0	0
Ending Fund Balance	\$87	\$49	\$27	\$43	\$58
Encumbrances	\$6	\$5	\$0	\$9	\$2

This account was established in 1989 to purchase miscellaneous items for the benefit of all inmates. The account is funded by interest derived from the Prisoner's Trust Account, 25 percent of net annual profit from facilities that operate an inmate store with inventory, and 100 percent of the net annual profit from facilities that operate an inmate store with contracted services. 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. 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.

Drug Law Enforcement Equipment Procurement Trust Account

Financial Data For Fiscal Years 2003-2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$2,736	\$363	\$454	\$41	\$37
Revenues	337	460	9	316	269
Interest	0	0	0	0	0
Expenditures	(2,710)	(369)	(422)	(320)	(26)
Transfers	0	0	0	0	0
Ending Fund Balance	\$363	\$454	\$41	\$37	\$280
Encumbrances	\$56	\$0	\$0	\$0	\$0

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. 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.

Narcotics Enforcement Agency Trust Account

Financial Data For Fiscal Years 2003-2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$99	\$143	\$56	\$52	\$283
Revenues	90	26	117	348	545
Interest	0	0	0	0	0
Expenditures	(46)	(113)	(121)	(117)	(205)
Transfers	0	0	0	0	0
Ending Fund Balance	\$143	\$56	\$52	\$283	\$623
Encumbrances	\$0	\$0	\$2	\$29	\$26

This account was established to hold forfeiture proceeds derived from unlawful drug activities. The department’s Narcotics Enforcement Division (NED) receives a portion of forfeiture receipts when it participates in federal and state drug investigations that result in criminal forfeiture. The fund primarily benefits the NED by providing a supplemental revenue source to be used for training, purchase of equipment and services, purchase of evidence, and other authorized law enforcement purposes. 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.

Sheriff Division Processing Service Clearing Account

Financial Data For Fiscal Years 2003-2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$60	\$56	\$55	\$35	\$1
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(4)	(1)	(20)	0	0
Transfers*	0	0	0	(34)	0
Ending Fund Balance	\$56	\$55	\$35	\$1	\$1
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfer was to the Department of Budget and Finance Unclaimed Properties Division.

This account was established in 1996 to account for civil deputy service fees. Civil process services user fees were 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 were refunded to the individual who paid for the service. However, the Oahu and Neighbor Island process servers stopped performing this service in 2001 and 2002, respectively. This account no longer serves its intended purpose as civil process servers are now required to self-administer service fees and deal directly with their clients. The transactions reported above were the attempts of the Sheriff Division to close out any outstanding accounts. The department is in the process of closing this account.

Temporary Deposits – Payroll Assignment Account

Financial Data For Fiscal Years 2003-2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$727	\$718	\$636	\$656	\$709
Revenues	155	100	79	64	70
Interest	0	0	0	0	0
Expenditures	(164)	(182)	(59)	(11)	(61)
Transfers	0	0	0	0	0
Ending Fund Balance	\$718	\$636	\$656	\$709	\$718
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. This account is a holding account until the salary overpayments 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. 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.

Victim Restitution Trust Fund

Financial Data For Fiscal Years 2003-2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$0	\$8	\$36	\$46	\$62
Revenues	\$22	\$82	\$106	\$173	\$197
Interest	\$0	\$0	\$0	\$0	\$0
Expenditures	(\$14)	(\$54)	(\$96)	(\$157)	(\$127)
Transfers	\$0	\$0	\$0	\$0	\$0
Ending Fund Balance	\$8	\$36	\$46	\$62	\$132
Encumbrances	\$0	\$0	\$0	\$0	\$0

This trust fund was established in 2003 as part of a pilot project in accordance with Section 353-22.6, HRS, which requires the department to enforce victim restitution orders against moneys earned by the prisoner while incarcerated. Court ordered restitution collected from inmates and other offenders are deposited into the fund and subsequently disbursed to crime victims as stipulated. The fund serves the purpose for which it was originally created and the intended beneficiaries (crime victims). The fund receives no general fund appropriations and meets the criteria of a trust fund.

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Chapter 5

Department of Taxation

This chapter presents the results of our review of two trust funds and six trust accounts of the Department of Taxation. For each fund or account we present a five year financial summary, the purpose of the fund or account, and the 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 the administrative authority in alphabetical order.

Fund Established Under Statutory Authority

Tax Reserve Fund, Section 231-23, HRS

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$(5,481)	\$0	\$0	\$409	\$(6,557)
Revenues	395,244	408,018	420,095	429,665	517,729
Interest	0	0	0	0	0
Expenditures	(389,763)	(408,018)	(419,686)	(436,631)	(511,172)
Transfers	0	0	0	0	0
Ending Fund Balance	\$0	\$0	\$409	\$(6,557)	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

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 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.

Fund and Accounts Established Under Administrative Authority

IRS Refund Intercept Account

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$1	\$1	\$1	\$1	\$1
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	\$1	\$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 Hawai'i 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. 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.

Litigated Claims Fund

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$1,465	\$10,136	\$26,174	\$9,557	\$8,608
Revenues	11,042	17,229	0	0	0
Interest	0	0	0	0	0
Expenditures	(2,371)	(1,191)	(16,617)	(949)	(1,882)
Transfers	0	0	0	0	0
Ending Fund Balance	\$10,136	\$26,174	\$9,557	\$8,608	\$6,726
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 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.

Taxes Paid Under Protest Accounts

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$6,007	\$7,074	\$7,480	\$3,059	\$5,927
Revenues	1,073	413	62	2,868	2,175
Interest	0	0	0	0	0
Expenditures	(6)	(7)	(4,483)	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$7,074	\$7,480	\$3,059	\$5,927	\$8,102
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 Kaua'i districts. The accounts meet the criteria for trust accounts as they require no general fund appropriations and serve the purpose for which they were originally created.

Taxes Payable to Counties – Fuel Accounts

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$0	\$7,484	\$1,546	\$2,454	\$1,546
Revenues	75,639	74,145	69,559	25,029	0
Interest	0	0	0	0	0
Expenditures	(68,155)	(80,083)	(68,651)	(25,937)	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$7,484	\$1,546	\$2,454	\$1,546	\$1,546
Encumbrances	\$0	\$0	\$0	\$0	\$0

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, Hawai'i, and Kaua'i districts. The Department of Taxation noted that the Department of Accounting and General Services, which initiates activity in the accounts, determined that no related distributions to the respective counties were necessary during FY2007. The accounts meet the criteria for trust accounts as they require no general fund appropriations and serve the purpose for which they were originally created.

Taxes Payable to Counties – Transient Accommodations Tax Account

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$0	\$6,247	\$7,479	\$0	\$0
Revenues	80,177	81,468	80,786	0	0
Interest	0	0	0	0	0
Expenditures	73,930	80,236	88,265	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$6,247	\$7,479	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

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: Kaua'i County receives 14.5 percent, Hawai'i County receives 18.6 percent, Maui County receives 22.8 percent, and the City and County of Honolulu receives 44.1 percent. The Department of Taxation noted that the Department of Accounting and General Services, which initiates activity in the account, determined that no related distributions to the respective counties were needed during FY2006 and FY2007. The 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.

Undistributed Tax Collections Accounts

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
Beginning Fund Balance	\$222,447	\$(13,285)	\$(8,022)	\$368,407	\$399,931
Revenues	3,482,551	4,013,037	4,545,891	4,736,566	5,057,860
Interest	0	0	0	0	0
Expenditures	(3,718,283)	(4,007,774)	(4,169,462)	(4,705,042)	(5,500,740)
Transfers	0	0	0	0	0
Ending Fund Balance	\$(13,285)	\$(8,022)	\$368,407	\$399,931	\$(42,949)
Encumbrances	\$0	\$0	\$0	\$0	\$0

These accounts were established as clearing accounts for taxes collected on behalf of the various counties. Separate accounts were established for the Honolulu, Maui, Hawai'i, and Kaua'i 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. These accounts meet the criteria for trust accounts as they require no general fund appropriations and serve the purpose for which they were originally created.

Unsettled Tax Collections – 1st Division - Honolulu Account

Financial Data for Fiscal Years 2003 – 2007 (in thousands)

	FY2003	FY2004	FY2005	FY2006	FY2007
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. This account does not meet the criteria of a trust account as it no longer serves the purpose for which it was originally created. We reiterate our prior report's recommendation to close this account.

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Responses of the Affected Agencies

Comments on Agency Responses

On October 17, 2007, we transmitted a draft of this review to the Departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation. A copy of the transmittal letter to the Department of Human Resources Development is included as Attachment 1. Similar transmittal letters were sent to the Departments of Labor and Industrial Relations, Public Safety, and Taxation. A copy of the responses of the Departments of Human Resources Development and Labor and Industrial Relations are included as Attachments 2 and 3, respectively. The Departments of Public Safety and Taxation were in general agreement in their exit conferences and did not submit responses.

The Department of Human Resources Development agreed with our review of its funds.

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 was established through a one-time assessment on employers at the inception of the fund. The department believes that as the funding came solely from employers, it should be used to either shore up the fund or to fund a program which directly benefits employers. The department also noted that it is actively assessing how the excess funds can be utilized and will be submitting to the Legislature a plan to expend the excess funding. We reiterate our basic conclusion that, during the five-year period under review, the \$8.4 million average fund balance earned an approximate \$277,000 of average annual interest, which is far more than needed to fund the approximate \$62,000 in average annual expenditures. In addition, the fund balance has increased by approximately \$1.1 million, to \$8.9 million during that same period.

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MARION M. HIGA
State Auditor

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

October 17, 2007

COPY

The Honorable Marie C. Laderta
Director
Department of Human Resources Development
Leiopapa A Kamehameha Building
235 South Beretania Street
Honolulu, Hawai'i 96813

Dear Ms. Laderta:

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 Departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation*. We ask that you telephone us by Friday, October 19, 2007, 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 23, 2007.

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, appearing to read 'marion m higa'.

Marion M. Higa
State Auditor

Enclosures

LINDA LINGLE
GOVERNOR OF HAWAII



MARIE C. LADERTA
DIRECTOR

Cindy S. Inouye
DEPUTY DIRECTOR

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

October 22, 2007

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OFC. OF THE AUDITOR
STATE OF HAWAII

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

Dear Ms. Higa:

Thank you for providing us with an opportunity to comment on the draft report, *Review of Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation.*

We concur with the recommendation to close the University of Hawaii Non-Indemnity Payments Fund. We are taking appropriate action to ensure the remaining balance is properly disbursed.

Should you have any questions, please feel free to call me or Mary Ann Teshima, our Administrative Services Officer, at 587-1100.

Very truly yours,

MARIE LADERTA
Director

LINDA LINGLE
GOVERNOR



DARWIN L.D. CHING
INTERIM DIRECTOR

COLLEEN Y. LaCLAIR
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS

830 PUNCHBOWL STREET, ROOM 321
HONOLULU, HAWAII 96813
www.hawaii.gov/labor
Phone: (808) 586-8842 / Fax: (808) 586-9099
Email: dlir.director@hawaii.gov

October 22, 2007

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OFF. OF THE AUDITOR
STATE OF HAWAII

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

Dear Ms. Higa:

The Department of Labor and Industrial Relations (DLIR) concurs with the majority of your findings and recommendations. However, the DLIR would like to include the following comment into the report of the review of the Revolving Funds, Trust Funds, and Trust Accounts regarding the Special Fund for Disability Benefits, Section 392-61, Hawaii Revised Statutes:

The DLIR does not concur with the recommendation to transfer unneeded funds to the General Fund. There was a one-time assessment on employers at inception of the fund. As the funding came solely from employers, it should be used to either shore up the fund or to fund a program which directly benefits employers. The DLIR is actively assessing how the excess funds can be utilized and will be submitting to the legislature a plan to expend the excess funding.

Should you have questions, please call me at 586-8844, or Mr. Patrick Fukuki, Business Management Officer, at 586-8888.

Sincerely,

Darwin L.D. Ching
Interim Director