
**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 Public Library System,
and Office of Hawaiian Affairs**

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

Report No. 11-04
December 2011



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. 11-04, December 2011

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 fourth 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 third 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 31 funds and accounts we reviewed this year, 10 were revolving funds, 12 were trust funds, and nine 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. In addition, a revolving fund must reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the related program and be an appropriate financial mechanism for the program or operation, as well as demonstrate the capacity to be self-sustaining. 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 or its management, or whether the program should be continued. However, we did find that three of the 31 funds and accounts reviewed did not meet the applicable criteria and/or may not be properly classified.



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 Governor, Office of the Lieutenant Governor, and Hawai'i State Public Library System did not submit written responses. The Office of Hawaiian Affairs agreed with our review of its funds.

The Department of Education agreed with most of our conclusions but disagreed with our finding that the Federal Revenue Maximization Program Revolving Fund lacked clear linkage between the benefits sought and the charges made upon the users or beneficiaries of the program. However, we stand by our conclusion as linkage cannot exist between the benefits sought and the charges made upon the users or beneficiaries of the program if the fund does not impose any charges upon the users or beneficiaries of the program. The department also disagreed with our finding that the Food Distribution Program Revolving Fund lacked clear linkage between the benefits sought and the charges made upon the users or beneficiaries of the program. We altered our analysis of this fund based on additional information provided by the department; however, we were ultimately unable to provide a conclusion as the fund has yet to be implemented.

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Submitted by

THE AUDITOR
STATE OF HAWAI'I

Report No. 11-04
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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 fourth 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 third 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 fourth 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 third 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. The third report, conducted in 2006 (Report No. 06-08), reviewed 33 revolving funds, trust funds, and trust accounts. In this fourth report, we reviewed 31 revolving funds, trust funds, and trust accounts.

Background

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. 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.

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. For example, the State Motor Pool Revolving 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.

Our review found a total of three funds that did not meet the applicable fund criteria or that may be improperly classified. The Office of the Governor, Office of the Lieutenant Governor, Hawai'i State Public Library System, and Office of Hawaiian Affairs did not have any funds with findings. The following table lists those funds and the related exceptions.

Fund Name	Fund Type	6/30/11 Balance (rounded)	Finding					
			No clear link between benefits sought and user charges	Does not meet trust fund definition	No longer serves original purpose	Inactive	Inappropriate financing mechanism	Received general fund support
Department of Education								
After-school Plus Program Revolving Fund	Revolving Fund	\$1,577,000						X
Department of Education Federal Revenue Maximization Program Revolving Fund	Revolving Fund	\$1,411,000	X					
School Bus Fare Revolving Fund	Revolving Fund	\$4,013,000						X

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, the 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 (FY2007 to FY2011), 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 the intent and purpose behind each fund or account. We also reviewed performance standards reported by the agencies and other documents as appropriate, and found that a majority of funds and accounts did not have any such 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 previously mentioned criteria.

We also noted that ending balances for FY2005-06 shown in our Report No. 06-08 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, therefore, may not correspond to actual beginning balances for FY2006-07 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 2011 to October 2011, according to generally accepted government auditing standards. We did not audit the agencies' financial data, which is provided only for informational purposes.

Chapter 2

Offices of the Governor and the Lieutenant Governor

This chapter presents the results of our review of one trust fund of the Office of the Governor. The Office of the Lieutenant Governor did not have any revolving and trust funds or trust accounts during the period of our review. 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 administrative authority, in alphabetical order.

Fund Established Under Administrative Authority

Governor's Trust Fund – Education

Financial Data for Fiscal Year 2011 (in thousands)

	FY2011
Beginning Fund Balance	\$0
Revenues	0
Interest	0
Expenditures	0
Transfers	0
Ending Fund Balance	0
Encumbrances	\$0

This trust fund was administratively established in 2011 to serve as a conduit for private contributions to the State from grants awarded from non-profit agencies and other contributions. The fund will be used to support personnel and operating costs related to providing statewide policy leadership for education in Hawai'i from early childhood through higher education in support of initiatives described in the Governor's New Day Plan. As this fund was just established and there is no activity, we are unable to conclude whether the fund meets the criteria of a trust fund.

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Chapter 3

Department of Education and Hawai'i State Public Library System

This chapter presents the results of our review of nine revolving funds, eight trust funds, and one trust account of the Department of Education. Also presented are eight trust accounts of the Hawai'i State Public Library System. 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 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 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$1,522	\$1,492	\$1,548	\$821	\$222
Revenues	2,750	2,023	2,646	1,980	2,969
Interest	80	78	31	15	0
Expenditures	(2,445)	(2,045)	(3,404)	(2,594)	(2,029)
Transfers*	(415)	0	0	0	415
Ending Fund Balance	\$1,492	\$1,548	\$821	\$222	\$1,577
Encumbrances	\$545	\$1,669	\$755	\$426	\$86

*Transfer in FY2007 was made to the School Community Service Fund and transfer in FY2011 was made from the School Community Service Fund.

This fund was established in 2004 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 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. There is a clear link between the benefit sought and charges made upon users. However, since this fund receives general funds, it is not self-sufficient and does not meet the criteria of a revolving fund.

Department of Education Federal Revenue Maximization Program Revolving Fund, Section 302A-1406, HRS

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$0	\$0	\$361	\$668	\$1,412
Revenues	0	577	491	1,244	1,157
Interest	0	0	0	0	22
Expenditures	0	(216)	(149)	(500)	(1,180)
Transfers*	0	0	(35)	0	0
Ending Fund Balance	\$0	\$361	\$668	\$1,412	\$1,411
Encumbrances	\$0	\$0	\$0	\$0	\$417

*Transfer in FY2009 was made to the Federal Grants Search, Development, and Application Revolving Fund.

This fund was established in 2006 to enhance the health and welfare of Hawai'i's public school children through the collection and disbursement of Medicaid-generated revenue to support the administration and operations of the Department of Education revenue maximization program. Revenues to the fund come from federal revenue collected by the department for administering and operating the program, legislative appropriations, earned interest, and other sources. There is no link between the benefit sought and charges made upon users. The fund is self-sustaining and does not require any general fund appropriations; however, it does not meet all the criteria of a revolving fund.

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

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$701	\$590	\$487	\$1,626	\$1,002
Revenues	519	561	1,655	0	1,361
Interest	0	0	0	0	21
Expenditures	(630)	(664)	(516)	(624)	(861)
Transfers	0	0	0	0	0
Ending Fund Balance	\$590	\$487	\$1,626	\$1,002	\$1,523
Encumbrances	\$20	\$137	\$245	\$674	\$533

This fund was established in 2005 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 also receives moneys from earned interest. There is a clear link between the benefit sought and charges made upon users. In addition, the fund is self-sustaining and does not require any general fund appropriations. The fund therefore meets the criteria of a revolving fund.

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

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$181	\$198	\$207	\$213	\$200
Revenues	9	0	2	0	107
Interest	8	9	4	2	0
Expenditures	0	0	0	(15)	(59)
Transfers	0	0	0	0	0
Ending Fund Balance	\$198	\$207	\$213	\$200	\$248
Encumbrances	\$0	\$0	\$0	\$198	\$139

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. There is a clear link between the benefit sought and charges made upon users. In addition, the fund is self-sustaining and does not require any general fund appropriations. The fund, therefore, meets the criteria of a revolving fund.

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

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$3,411	\$188	\$3,486	\$3,362	\$3,136
Revenues	113	174	122	229	121
Interest	146	150	64	30	0
Expenditures	(193)	(315)	(345)	(485)	(923)
Transfers*	(3,289)	3,289	35	0	0
Ending Fund Balance	\$188	\$3,486	\$3,362	\$3,136	\$2,334
Encumbrances	\$6	\$4	\$2	\$83	\$3

*Transfer in FY2007 was to record a loan made to cover a deficit in the State Educational Facilities Improvement Special Fund. In FY2008, the loan was repaid from the State Educational Facilities Improvement Special Fund. Transfer in FY2009 was received from the Department of Education Federal Revenue Maximization Program Revolving Fund.

This fund was established in 2001 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. There is a clear link between the benefit sought and

charges made upon users. In addition, the fund is self-sustaining and does not require any general fund appropriations. The fund, therefore, meets the criteria of a revolving fund.

Food Distribution Revolving Fund, Section 302A-1315, HRS

Financial Data for Fiscal Years 2008 – 2011 (in thousands)

	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$0	\$0	\$0	\$0
Revenues	0	0	0	0
Interest	0	0	0	0
Expenditures	0	0	0	0
Transfers	0	0	0	0
Ending Fund Balance	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0

This fund was established in 2008 for the collection and disbursement of generated revenue to support the administration and operation of the department's food distribution program. Revenues to the fund are intended to be from administrative fees collected by the department, all interest earned on the deposit or investment of moneys in the program, and any other moneys made available from other sources. Administrative fees would be paid by the school food authorities who participate in the Food Distribution Program or receive U.S. Department of Agriculture (USDA) commodities. The fund and program are to be administered by the department's Office of Hawai'i Child Nutrition Program. However, the fund has not yet been utilized as the department's initial administrative fee proposal submitted in FY2009 was not approved by the USDA. An updated fee proposal submitted in FY2011 was never followed up on by the department due to budget restrictions and rising food costs. As the fund has not yet been implemented, we are unable to conclude whether it meets applicable criteria.

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

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$932	\$1,402	\$1,658	\$2,241	\$3,378
Revenues	1,105	1,956	2,115	1,940	2,679
Interest	38	90	40	26	0
Expenditures	(673)	(1,790)	(1,572)	(829)	(2,044)
Transfers	0	0	0	0	0
Ending Fund Balance	\$1,402	\$1,658	\$2,241	\$3,378	\$4,013
Encumbrances	\$46	\$175	\$533	\$1,601	\$556

This revolving fund was established in 2002 to deposit all moneys received from school bus fares from students and parents or guardians of students by public schools for state-provided school busing services. Moneys in the fund shall be used for school busing services. There is a clear link between the benefit sought and charges made upon users. The fund is not self-sustaining as it received general fund appropriations in fiscal years 2007 through 2011; therefore, it does not meet all of the criteria of a revolving fund.

Teachers' Housing Revolving Fund, Section 302A-833, HRS

Financial Data for Fiscal Year 2009 (in thousands)

	FY2009
Beginning Fund Balance	\$0
Revenues	85
Interest	0
Expenditures	0
Transfers *	(85)
Ending Fund Balance	\$0
Encumbrances	\$0

*Transfer in FY2009 was made to the Teachers' Housing Operating Fund.

This fund was established in 1969 to support the development and administration of housing for teachers in the Department of Education. The fund was used for the operation and maintenance of teacher housing on the neighbor islands, where teacher housing was to be provided only

in areas that lack adequate housing at a reasonable cost. Revenues to the fund came from rent collected from the teachers who utilize these accommodations. In FY2009, the fund was transferred from the Hawai'i Public Housing Authority to the department, and was subsequently terminated during the same fiscal year. There was a clear link between the benefit sought and charges made upon users. In addition, the fund was self-sustaining and did not require any general fund appropriations. The fund, therefore, met the criteria of a revolving fund while it existed.

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

Adult Education Revolving Fund

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$349	\$350	\$354	\$338	\$325
Revenues	194	149	225	152	205
Interest	16	17	6	4	6
Expenditures	(209)	(162)	(247)	(169)	(142)
Transfers	0	0	0	0	0
Ending Fund Balance	\$350	\$354	\$338	\$325	\$394
Encumbrances	\$27	\$36	\$14	\$7	\$10

This fund was established in 1970 to provide adults the opportunity to enrich and broaden their cultural, recreational, and social interests. Eleven community schools for adults throughout the state offer a broad range of special interest classes to the community determined by each community school principal. Funds are derived from the collection of related student fees and are used to cover the cost of instruction, instructional materials, supplies, equipment, testing fees, classroom rentals, and other expenses directly associated with the operation of the adult classes. There is a clear link between the benefit sought and charges made upon users. In addition, the fund is self-sustaining and does not require any general fund appropriations. The fund, therefore, meets the criteria of a revolving fund.

Alu Like Trust Fund

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$110	\$175	\$170	\$174	\$103
Revenues	368	155	269	186	255
Interest	0	0	0	0	0
Expenditures	(318)	(160)	(265)	(240)	(210)
Transfers*	15	0	0	(17)	0
Ending Fund Balance	\$175	\$170	\$174	\$103	\$148
Encumbrances	\$28	\$14	\$16	\$12	\$11

*Transfer in FY2007 was received from the Foundation and Other Grants Trust Fund. Transfers in FY2010 were made to and received from the 'Ōlelo-Educational Program Public TV Fund.

This fund was established in 1992 to account for moneys received through a memorandum of agreement with Alu Like, Inc.'s Native Hawai'i 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 Kāko'o, Waialua High Schools' Hawaiian Seariders, Moloka'i High and Intermediate School's Hawai'i Alive Project, Kealakehe High School's Project Waveriders, and Honoka'a High School's Project Keoki. The fund meets the criteria of a trust fund, as it continues to serve the purpose for which it was originally created and does not require any general fund appropriations.

Athletic Trust Fund

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$398	\$529	\$661	\$731	\$930
Revenues	698	793	732	939	1,104
Interest	20	34	14	10	19
Expenditures	(587)	(695)	(676)	(750)	(941)
Transfers	0	0	0	0	0
Ending Fund Balance	\$529	\$661	\$731	\$930	\$1,112
Encumbrances	\$52	\$110	\$70	\$152	\$133

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 revenue include admission fees collected from various sporting events, activity book sales, donations to public school athletic programs, and earned interest. Funds are expended for supplies, equipment, travel, and other expenses for various sports programs at the schools. Beneficiaries are students participating in sports activities at the schools. The fund meets the criteria of a trust fund, as it continues to serve the purpose for which it was originally created and does not require any general fund appropriations.

Donations and Gifts Trust Fund

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$3,251	\$3,895	\$4,640	\$5,398	\$6,901
Revenues	1,020	922	1,024	820	1,253
Interest	135	192	89	64	110
Expenditures	(421)	(369)	(355)	(403)	(1,202)
Transfers*	(90)	0	0	1,022	20
Ending Fund Balance	\$3,895	\$4,640	\$5,398	\$6,901	\$7,082
Encumbrances	\$58	\$66	\$38	\$290	\$380

*Transfer in FY2007 was made to the Foundation and Other Grants Trust Fund. Transfers were received in FY2010 from the Investment Pool Account and in FY2011 from the 'Ōlelo-Educational Program Public Access TV Fund due to an increase in payroll costs.

This fund was established in 1961 to account for donations made to schools for specific purposes. Donations are held in trust for students and public schools named by the donor. Past donations have included grants in support of The Wai‘anae Coast May Experience, Drug-Free Hawai‘i, and literacy programs. The fund also receives moneys from earned interest. The fund meets the criteria of a trust fund, as it continues to serve the purpose for which it was originally created and does not require any general fund appropriations.

Foundation and Other Grants Trust Fund

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$5,306	\$7,316	\$7,497	\$10,261	\$9,407
Revenues	4,230	3,976	7,710	4,600	9,295
Interest	179	266	125	83	187
Expenditures	(2,474)	(4,061)	(5,071)	(4,535)	(5,936)
Transfers*	75	0	0	(1,002)	0
Ending Fund Balance	\$7,316	\$7,497	\$10,261	\$9,407	\$12,953
Encumbrances	\$473	\$1,245	\$2,023	\$1,193	\$1,595

*In FY2007, transfers were made to the Alu Like Trust Fund (\$15,000) and received from the Donations and Gifts Trust fund (\$90,000). Transfer in FY2010 was made to the Donations and Gifts Trust Fund.

This fund was established in 1961 to account for grants received from foundations, 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, Health Kapolei Initiative, and Parent/Student Training Program. Revenue to the fund is from grants and earned interest. The fund meets the criteria of a trust fund, as it continues to serve the purpose for which it was originally created and does not require any general fund appropriations.

Non-Appropriated Local School Fund

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$17,684	\$19,038	\$19,816	\$16,298	\$19,039
Revenues	37,608	30,110	24,045	22,601	38,312
Interest	0	0	0	0	0
Expenditures	(36,254)	(29,332)	(27,563)	(19,860)	(34,257)
Transfers	0	0	0	0	0
Ending Fund Balance	\$19,038	\$19,816	\$16,298	\$19,039	\$23,094
Encumbrances	\$0	\$0	\$0	\$0	\$0

This trust fund was created in 1982 to account for money held in trust by local 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 the 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. The fund meets the criteria of a trust fund, as it continues to serve the purpose for which it was originally created and does not require any general fund appropriations.

Office of Hawaiian Affairs – Ceded Land Trust Fund

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$102	\$102	\$93	\$96	\$93
Revenues	46	41	81	72	83
Interest	0	0	0	0	0
Expenditures	(46)	(50)	(78)	(75)	(76)
Transfers	0	0	0	0	0
Ending Fund Balance	\$102	\$93	\$96	\$93	\$100
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund was established in 2004 as a holding account for assessments made on Department of Education sites that are situated on ceded lands. Revenues are calculated based on a percentage of how much of ceded

land square footage is occupied by a school district. The percentage rate is applied to all of the schools in the school district against the receipts collected from renting out school facilities to various individuals or organizations. These funds are then remitted to the Office of Hawaiian Affairs on a quarterly basis. The beneficiaries of the fund are the Office of Hawaiian Affairs, the school district complexes, and the schools that rented out their facilities. The fund meets the criteria of a trust fund, as it continues to serve the purpose for which it was originally created and does not require any general fund appropriations.

Office of Hawaiian Affairs Grants Fund

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$345	\$782	\$808	\$759	\$760
Revenues	554	47	30	26	6
Interest	0	0	0	0	0
Expenditures	(117)	(21)	(79)	(25)	(62)
Transfers*	0	0	0	0	(99)
Ending Fund Balance*	\$782	\$808	\$759	\$760	\$605
Encumbrances	\$3	\$16	\$15	\$12	\$2

*Transfer in FY2011 was made to return unspent grant funds and to eliminate deficits at Enchanted Lake and Kekaha Elementary Schools.

This 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. Revenue sources are from assessments made on the Department of Education's use of ceded lands. The fund meets the criteria of a trust fund, as it continues to serve the purpose for which it was originally created and does not require any general fund appropriations.

‘Ōlelo-Educational Program Public TV Fund

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$593	\$764	\$989	\$1,153	\$1,075
Revenues	615	492	596	571	467
Interest	25	37	19	12	19
Expenditures	(469)	(304)	(451)	(659)	(800)
Transfers*	0	0	0	(2)	(20)
Ending Fund Balance*	\$764	\$989	\$1,153	\$1,075	\$741
Encumbrances	\$9	\$15	\$11	\$54	\$79

*Transfer in FY2010 represents a year-end reconciliation adjustment and the transfer in FY2011 was made to the Donations and Gifts Trust Fund.

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 meets the criteria of a trust fund, as it continues to serve the purpose for which it was originally created and does not require any general fund appropriations.

Restoring Instructional Days Trust Account

Financial Data for Fiscal Year 2011 (in thousands)

	FY2011
Beginning Fund Balance	\$0
Revenues	67,000
Interest	0
Expenditures	(54,627)
Transfers	0
Ending Fund Balance	\$12,373
Encumbrances	\$0

This account was established in 2011 to restore 11 furlough days for all Department of Education employees in FY2011. Funds appropriated, but not expended, for the 2010-2011 school year shall not be carried over to the following school year and shall lapse into the Hawai'i Hurricane Relief Fund. Unexpended funds at the close of the 2010-11 school year have yet to lapse into the Hawai'i Hurricane Relief Fund, as fringe costs related to the teacher salaries have not yet been transferred to the Department of Budget and Finance. The account continues to serve the purpose for which it was originally created, does not require any general fund appropriations, and meets the criteria of a trust account.

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

Friends of the Library

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$3	\$3	\$7	\$7	\$190
Revenues	0	7	3	190	240
Interest	0	0	0	0	3
Expenditures	0	(3)	(3)	0	(77)
Transfers*	0	0	0	(7)	0
Ending Fund Balance	\$3	\$7	\$7	\$190	\$356
Encumbrances	\$0	\$0	\$0	\$0	\$100

*Transfers in FY2010 were made to the O'ahu Public Libraries – Donations & Gifts, Hawai'i (County) Public Libraries – Donations & Gifts, and HSL & LBPH – Donations & Gifts trust accounts.

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 Hawai'i 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 continues to serve the purpose for which it was originally created and does not require any general fund appropriations.

Hawai'i Public Library Payroll Collections

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
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 continues to serve the purpose for which it was originally created and does not require any general fund appropriations.

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

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$19	\$22	\$28	\$32	\$52
Revenues	12	6	6	19	2
Interest	3	2	1	1	1
Expenditures	(13)	(2)	(3)	0	(15)
Transfers*	1	0	0	0	(3)
Ending Fund Balance	\$22	\$28	\$32	\$52	\$37
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfer in FY2007 was received from the O'ahu Public Libraries – Donations & Gifts account. Transfer in FY2011 was made to the HSL & LBPH – Donations & Gifts account as a correction of pCard charges.

This trust account was first established in 1961-62 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 continues to serve the purpose for which it was originally created and does not require any general fund appropriations.

HSL & LBPH – Donations & Gifts

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$459	\$434	\$400	\$351	\$699
Revenues	40	25	5	356	219
Interest	20	20	7	4	6
Expenditures	(85)	(79)	(61)	(15)	(243)
Transfers*	0	0	0	3	(14)
Ending Fund Balance	\$434	\$400	\$351	\$699	\$667
Encumbrances	\$5	\$0	\$1	\$0	\$0

*Transfers in FY2010 were received from the Friends of the Library and O'ahu Public Libraries – Donations & Gifts accounts as a correction of appropriation codes. Transfers in FY2011 were made to the O'ahu Public Libraries – Donations & Gifts and HSPLS Computer Supplies – Donations & Gifts accounts and were received from the HSPLS Computer Supplies – Donations & Gifts and Hawai'i (County) Public Libraries – Donations & Gifts accounts.

This trust account was first established as the Donations for Transcribing Services account and was re-designated in 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, this 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 continues to serve the purpose for which it was re-designated and does not require any general fund appropriations.

HSPLS Computer Supplies – Donations

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$146	\$190	\$237	\$287	\$329
Revenues	52	50	49	56	68
Interest	7	10	5	3	6
Expenditures	(15)	(13)	(4)	(18)	(29)
Transfers*	0	0	0	1	17
Ending Fund Balance	\$190	\$237	\$287	\$329	\$391
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfer in FY2010 was made from the Department of Accounting and General Services-Risk Management. Transfers in FY2011 were received from and made to the HSL & LBPH – Donations & Gifts.

This trust account was first established in 1961-62 as the Maui Public Library – Donations & Gifts trust account and was re-designated in 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 continues to serve the purpose for which it was re-designated and does not require any general fund appropriations.

Kaua'i & Maui Public Libraries – Donations & Gifts

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$10	\$12	\$53	\$55	\$54
Revenues	4	43	4	0	46
Interest	0	1	1	1	0
Expenditures	(2)	(3)	(3)	(2)	(58)
Transfers	0	0	0	0	0
Ending Fund Balance	\$12	\$53	\$55	\$54	\$42
Encumbrances	\$0	\$0	\$1	\$0	\$0

This trust account was first established in 1961-62 as the Kaua'i Public Library – Donations & Gifts trust account. In 2000, it was re-designated

as the Kaua'i & Maui Public Library – 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 continues to serve the purpose for which it was re-designated and does not require any general fund appropriations.

O'ahu Public Libraries – Donations & Gifts

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$233	\$233	\$204	\$219	\$247
Revenues	12	39	31	22	68
Interest	10	11	4	3	4
Expenditures	(21)	(79)	(20)	(1)	(62)
Transfers*	(1)	0	0	4	0
Ending Fund Balance	\$233	\$204	\$219	\$247	\$257
Encumbrances	\$0	\$0	\$0	\$18	\$11

*Transfer in FY2007 was made to the Hawai'i (County) Public Libraries – Donations & Gifts. Transfer in FY2010 was made to the HSL & LBPH – Donations & Gifts account and received from the Friends of the Library account.

This trust account was first established in 1961-62 as the Library of Hawai'i – Donations & Gifts trust account. In 2000, the account was re-designated as the O'ahu Public Libraries – Donations & Gifts trust account. The account receives donations from individuals or groups for libraries 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 continues to serve the purpose for which it was re-designated and does not require any general fund appropriations.

**Risk Management—Fire & Casualty Losses—HSPLS,
Section 41D-4, HRS**

Financial Data for Fiscal Years 2008 – 2011 (in thousands)

	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$0	\$13	\$13	\$13
Revenues	31	0	0	0
Interest	0	0	0	0
Expenditures	0	0	0	0
Transfers*	(18)	0	0	0
Ending Fund Balance	\$13	\$13	\$13	\$13
Encumbrances	\$0	\$0	\$0	\$13

*Transfer in FY2008 was made to the Department of Accounting and General Services for the repairs made to the Hawai'i Island libraries damaged by the 2006 earthquake.

This trust account was established in 2008 for the purposes of receiving settlement moneys of claims or losses relating to the library system. Moneys received from the settlement of claims or losses and any interest earned thereon shall be used for the purpose identified in any such settlement. In FY2008, funds were received from the Federal Emergency Management Agency that was used to repair library buildings on Hawai'i Island damaged by the 2006 earthquake. This fund meets trust account criteria, as it continues to serve the purpose for which it was originally created and does not require any general fund appropriations.

Chapter 4

Office of Hawaiian Affairs

This chapter presents the results of our review of three trust funds and one revolving fund of the Office of Hawaiian Affairs (OHA). 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 fund established by statutory authority, followed by the funds established under administrative authority, in alphabetical order.

Fund Established Under Statutory Authority

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

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$317,401	\$392,920	\$360,498	\$290,778	\$340,554
Revenues	19,074	17,255	17,394	17,089	16,375
Interest	80,659	4,891	(40,777)	79,520	86,133
Expenditures	(24,214)	(54,568)	(46,337)	(46,833)	(46,916)
Transfers	0	0	0	0	0
Ending Fund Balance	\$392,920	\$360,498	\$290,778	\$340,554	\$396,146
Encumbrances	\$15,712	\$11,420	\$15,285	\$8,985	\$21,996

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, Hawai'i Revised Statutes (HRS). Act 176, Session Laws of Hawai'i (SLH) 1996, changed the designation of public land trust funds from "special funds" to "trust funds." The passage of Act 178 (SLH 2006) established the annual sum of \$15.1 million as OHA's pro rata portion of the Public Land Trust. 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. The Public Land Trust, also known as OHA's Native Hawaiian Trust Fund, meets the criteria of a trust fund, as it continues to serve the purpose for which it was originally created and does not require any general fund appropriations.

Funds Established Under Administrative Authority

Hawaiian Projects Fund

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$407	\$427	\$163	\$342	\$135
Revenues	445	577	592	142	821
Interest	0	0	0	0	0
Expenditures	(425)	(841)	(413)	(349)	(717)
Transfers	0	0	0	0	0
Ending Fund Balance	\$427	\$163	\$342	\$135	\$239
Encumbrances	\$20	\$42	\$0	\$0	\$239

This trust fund was established in 1987 to receive revenues from the sale of goods directed at the Hawaiian community. Major revenue sources for this fund include sales of advertising space on OHA's monthly newspaper, *Ka Wai Ola*; OHA's portion of proceeds from the sale of publications or books; federal and other grants; 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 and operations related to OHA's programs and wholly owned subsidiaries, as determined by OHA's Board of Trustees. Program activities affected by the fund are the Community Relations Line of Business activities that focus on getting meaningful information to beneficiaries for the purpose of education related to a specific issue impacting the Hawaiian community. This fund meets the criteria of a trust fund, as it continues to serve the purpose for which it was originally created and does not require any general fund appropriations.

Native Hawaiian Revolving Loan Fund

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$24,541	\$24,982	\$19,809	\$20,206	\$20,449
Revenues	421	1,894	3,919	3,384	3,181
Interest	966	1,245	762	345	144
Expenditures	(946)	(8,312)	(4,284)	(3,486)	(2,599)
Transfers	0	0	0	0	0
Ending Fund Balance	\$24,982	\$19,809	\$20,206	\$20,449	\$21,175
Encumbrances	\$23	\$84	\$63	\$135	\$175

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 of 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 any federal grant funds with Public Land Trust funds, up to \$1 million. 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.

In 2007, upon approval of the U.S. Administration of Native Americans, OHA launched a revised loan program. Known as the Malama Loan Program, loan offerings were expanded to include both business and consumer loans for Native Hawaiians. The Malama Loan Program maintained the existing business loan offerings and added consumer lines for education and home improvement. Free technical assistance programs are provided for loan applicants through direct staff support and/or consultants contracted by OHA. In 2011, the U.S. Administration of Native Americans approved two additional loan instruments. A revolving line of credit was approved for qualified Hawaiian-owned businesses and a debt consolidation program was approved for Native Hawaiian consumers. There is a clear link between the benefit sought and charges made upon users. In addition, the fund is self-sustaining and does not require any general fund appropriations. The fund, therefore, meets the criteria of a revolving fund.

Native Hawaiian Rights Fund

Financial Data for Fiscal Years 2007 – 2011 (in thousands)

	FY2007	FY2008	FY2009	FY2010	FY2011
Beginning Fund Balance	\$289	\$289	\$2,499	\$57	\$107
Revenues	0	2,210	427	50	41
Interest	0	0	0	0	0
Expenditures	0	0	(2,869)	0	0
Transfers	0	0	0	0	0
Ending Fund Balance	\$289	\$2,499	\$57	\$107	\$148
Encumbrances	\$0	\$0	\$0	\$0	\$0

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 the OHA is joined as a defendant. The Office of Hawaiian Affairs uses these funds to protect or represent the interests of Native Hawaiians in such instances as water rights hearings and historic site protection. Although this fund was established by OHA's 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. 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 meets the criteria of a trust fund, as it continues to serve the purpose for which it was originally created and does not require any general fund appropriations.

Responses of the Affected Agency

Comments on Agency Responses

On November 29, 2011, 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 transmittal 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 Department of Education and the Office of Hawaiian Affairs are included as Attachments 2 and 3 respectively. The Office of the Governor, Office of the Lieutenant Governor, and Hawai'i State Public Library System did not submit written responses.

The Department of Education agreed with our conclusion that the After-school Plus Program Revolving Fund and School Bus Fare Revolving Fund did not meet the criteria of a revolving fund, and will propose reclassifying these funds as special funds. The department disagreed with our finding that the Federal Revenue Maximization Program Revolving Fund lacked clear linkage between the benefits sought and the charges made upon the users or beneficiaries of the program. However, we stand by our conclusion as linkage cannot exist between the benefits sought and the charges made upon the users or beneficiaries of the program if the fund does not impose any charges upon the users or beneficiaries of the program. According to the department's response, "the fund serves as a depository for federal reimbursements collected for services provided to special education students ..."

The department also disagreed with our finding that the Food Distribution Program Revolving Fund lacked clear linkage between the benefits sought and the charges made upon the users or beneficiaries of the program. We altered our analysis of this fund based on additional information provided by the department; however, we were ultimately unable to provide a conclusion as the fund has yet to be implemented.

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

ATTACHMENT 1

STATE OF HAWAI'I
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

November 29, 2011

COPY

The Honorable Neil Abercrombie
Governor of the State of Hawai'i
State Capitol, Fifth Floor
Honolulu, Hawai'i 96813

Dear Governor Abercrombie:

Enclosed for your information is Copy No. 1 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 Library System, and Office of Hawaiian Affairs*. We ask that you telephone us by Thursday, December 1, 2011, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Friday, December 9, 2011.

The term "confidential draft" means that the report is confidential, not in its final form, and has not been released for general distribution. Copies of the report have been transmitted to the Office of the Lieutenant Governor, Department of Education, Board of Education, Hawai'i State Library System, Office of Hawaiian Affairs, and Office of Hawaiian Affairs Board of Trustees. Copies have also been transmitted to the President of the Senate and the Speaker of the House of Representatives. The report will be released by our office after it is published in its final form.

Sincerely,

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

Marion M. Higa
State Auditor

Enclosure

NEIL ABERCROMBIE
GOVERNOR



KATHRYN S. MATAYOSHI
SUPERINTENDENT

STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAII 96804

OFFICE OF THE SUPERINTENDENT

December 9, 2011

RECEIVED

2011 DEC 13 PM 1:10

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

OFC. OF THE AUDITOR
STATE OF HAWAII

Dear Ms. Higa:

The Department of Education (DOE) appreciates the opportunity to comment on your report titled ***“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.”***

Your report indicates findings on four DOE revolving funds, as to whether they are properly classified as revolving funds.

- After-school Plus Program (A+ Program)
- Federal Revenue Maximization Program
- Food Distribution Program
- School Bus Fare

These funds were established by the Legislature.

After-school Plus Program (A+ Program)

Your report indicates that the A+ Program received general fund support during the period reviewed, and therefore, did not meet the criteria of a revolving fund. Starting in fiscal year 2010-11 all DOE general funding has been eliminated from this program. The DOE does, however, receive support funds from the Department of Human Services (DHS) for services provided to students from families in poverty. Due to the varying funding sources from DHS, state funds could be transferred and expended in the A+ Program.

Therefore, to resolve this situation, we will request that the Legislature change the After-school Plus Program Revolving Fund to a special fund.

Federal Revenue Maximization Program

Your report indicates that there is not a clear link between the benefits sought and the charges to the user or beneficiary. We believe this is not correct. The Federal Revenue Maximization Program Revolving Fund, authorized by Section 302A-1406 of the Hawaii Revised Statutes (HRS), was established to support the development and ongoing operation of the DOE school-based Medicaid claiming program. Specifically, the fund serves as a depository for federal reimbursements collected for services provided to special education students enrolled in the state Medicaid program.

Expenditures from the Federal Revenue Maximization Program Revolving Fund are made solely to support the provision of Medicaid-eligible services to special education students and meet the administration costs of the program. For example, Federal Revenue Maximization Program Revolving Fund moneys are currently being expended to support children in the DOE's medically fragile program.

The Federal Revenue Maximization Program Revolving Fund is vital to the success of the DOE school-based claiming program. Its existence supports the DOE's legislative mandate to maximize federal revenue for all Medicaid-eligible services provided to Hawaii's school-aged children. Most importantly, it allows for an efficient means of expending Medicaid reimbursements that are targeted specifically for special education students who are Medicaid eligible.

Food Distribution Program

Your report indicates that there is not a clear link between the benefits sought and the charges to the user or beneficiary. We believe this is not correct. The revolving fund for the Food Distribution Program (FDP), per Act 194, Session Laws of Hawaii 2007, states the revolving fund is "for the receipts from the administrative fees charged to the recipient agencies for the distribution of the federal commodity foods." The food distribution regulations (7 CFR 250) indicate the allowable costs that can be included in the calculation of the administrative fee as permitted by the U.S. Department of Agriculture (USDA).

Hawaii has 17 recipient agencies that received \$4.02 million in federal commodities for fiscal year 2011-12. The commodities are a valuable food benefit to the recipient agencies as they provide free high quality foods that offset the cost of the meals to students participating in the National School Lunch Program (NSLP). Commodities are also an important resource due to escalating food costs and limited food sources. The DOE School Food Services Branch, our largest recipient agency, receives 96% of the commodity allocations. The USDA strongly recommends that recipient agencies use the commodities to offset up to 20% of their commercially procured food costs.

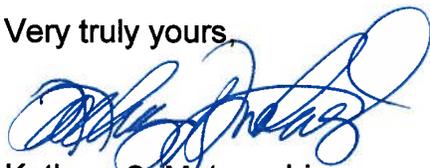
The Honorable Marion M. Higa
December 9, 2011
Page 3

In order to provide administrative oversight of the FDP, the USDA has mandated that the Office of Hawaii Child Nutrition Programs develop an automated system at the state agency level. Once the administrative fee is approved by the USDA, the funds collected will provide the financial support to develop the automated system as well as strengthen our state agency oversight and administration of the FDP. This will help ensure accountability and the continuance of FDP so that healthy and affordable meals are available to all students through the NSLP.

School Bus Fare

We recognize that the student transportation program has required, and will continue to require, general fund support. Accordingly, we will request that the Legislature change the School Bus Fare Revolving Fund into a special fund.

Very truly yours,



Kathryn S. Matayoshi
Superintendent

KSM:mrs

c: Accounting Services Branch
Internal Audit



STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS
711 KAPI'OLANI BOULEVARD, SUITE 500
HONOLULU, HAWAII 96813

RECEIVED

December 2, 2011

2011 DEC -6 PM 3: 57

OFF. OF THE AUDITOR
STATE OF HAWAII

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

Aloha Ms. Higa:

Mahalo 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 indicated in your report, the Office of Hawaiian Affairs, Native Hawaiian Trust Fund, Hawaiian Projects Fund and Native Hawaiian Rights Funds all, "...continue to serve the purpose for which it was originally created." Also, our Native Hawaiian Revolving Loan Fund remains self-sustaining, with a, "...clear link between benefit(s) sought and charges made upon users." We are grateful for your finds and we appreciate the diligence your office demonstrated in reaching your conclusions as the Office of Hawaiian Affairs continues its mission to provide benefits and services to our beneficiaries.

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.

'O wau iho nō,

A handwritten signature in cursive script that reads "Colette Y. Machado".

Colette Y. Machado
Chairperson, Board of Trustees