

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Study of Executive Expenditure Controls

Summary

Each fiscal year, the current administration withholds from its departments a portion of the moneys appropriated by the Legislature. Although state law allows the executive branch to spend less than the Legislature appropriates, the Legislature became concerned with the effects of this practice and the possibility that its own programs were the first to be restricted.

The administration's general rationale has been that funds are held back to cover unexpected downturns and to improve the efficiency of government operations. The current administration, however, has followed the same practice year after year, even when revenues have exceeded estimates, and it has done so without sufficient explanation for the specific amounts withheld.

The effectiveness of forced savings at the beginning of the year is questionable because restrictions are often restored anyway--usually in the fourth quarter. For example, in FY1989-90, the administration restored \$22 million out of the \$28 million it restricted. The Department of Budget and Finance does not evaluate the effectiveness of its practices year-to-year.

We found that the administration's spending instructions to departments have not been timely. In the current fiscal year, departments were not informed of what they could spend until six weeks after the fiscal year started. Instructions for previous years have also been late. The delay, coupled with the quarterly allotment system, meant that departments were forced to amend their spending plans.

As to the Legislature's concern about its programs being restricted first, we found that departments responded differently to the directive to cut spending. Some applied the reductions--usually a percentage--to all programs alike. Others used a selective approach, targeting particular programs, cost categories, or organizational units. Departments differed in their treatment of programs initiated by the Legislature. Some departments reduced these along with their own programs. Others applied the reductions first to all new programs, which meant many programs initiated by the Legislature were restricted first.

Recommendations and Response

We recommended that the Department of Budget and Finance develop more specific and pointed rationales for its restrictions, be more timely in its directives, and also monitor the effect of its practices to determine if reductions are fulfilling the desired purpose. We also recommended that B&F report routinely to the Legislature on the magnitude of the restrictions, the amounts lapsed, and the impact of the restrictions--including their impact on legislatively-initiated programs.

In its response, B&F defended its practices. It maintained that departments are given adequate notice of the restrictions and the rationale for them through the governor's cabinet meetings. It also maintained that the recommendations on monitoring and reporting were not based on any evidence that it was remiss in its operations.

Background

Historically, the separation of powers between the executive and legislative branches has involved some contention over fiscal policy and its implementation. With technology and the increasing complexity of society, the national trend has been for the executive branch to dominate both the budget preparation and execution processes. The authority and practice of the Hawaii state administration to decide what the level of expenditures should be despite what the Legislature has decided to appropriate reflects the long history of intermittent conflict in executive-legislative fiscal relationships.

Office of the Auditor
State of Hawaii
465 South King Street, Suite 500
Honolulu, Hawaii 96813
(808) 548-2450
FAX (808) 548-2693