

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Review of Trust and Revolving Funds of the Departments of Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources

Summary

Act 280, Session Laws of Hawaii 1993, amended Chapter 23, HRS to require 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 report is the first required under the new law.

Section 37-40, Hawaii Revised Statutes, exempts revolving and trust funds from the biennial appropriations process. The use of these funds, therefore, often does not receive the degree of legislative scrutiny given to the use of general funds that are subject to appropriation by the Legislature. The Legislature considered it prudent to require the Auditor to review these funds so that it could assess the continuing need for revolving and trust funds.

Revolving funds are often established with an appropriation of seed money from the general fund. They are supposed 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* account for assets held by the State for the benefit of others. They may include donations to be used for specific beneficiaries. Many trust funds are actually trust accounts established by the comptroller because of limitations in the state's Financial Accounting and Management Information System (FAMIS). The trust accounts serve as separate holding or clearing accounts for state agencies or as an accounting device to credit or charge services, for security deposits, or other costs.

This year we reviewed 57 revolving and trust funds and trust accounts. We used criteria established by the Legislature and developed by our office from a review of public finance and accounting literature. The criteria for these funds are that they continue to serve the purpose for which they were created and do not require continuing general fund appropriations. In addition, revolving funds must show a linkage between benefits and charges made on users.

For each fund or account, 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. We did not evaluate the performance standards established by agencies for the funds as requested by Act 280 since none of the agencies had established performance standards. We assumed they were meeting performance standards if they were meeting the purpose for which they had been established and our criteria.

Responses

The state comptroller does not agree with our conclusion that the State Risk Management Revolving Fund does not meet the criteria for a revolving fund. The response cites the value of having a reserve fund to deal with future losses for which the State is self-insured. We believe the fund still does not meet the criteria of a revolving fund, but it does serve a useful purpose as a reserve fund for future losses and have so noted in our report. The state comptroller also provided new information on the Special Deposits—Tenant Deposits trust account which we included in our report. The response also provided additional details on the Temporary Deposits—Public Works trust account.

The Departments of Agriculture and Budget and Finance provided some clarifying information that we have incorporated in the report.

Marion M. Higa
State Auditor
State of Hawaii

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