

OVERVIEW

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

Report No. 99-6, January 1999

Summary

Section 23-12, Hawaii Revised Statutes (HRS), 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, an evaluation of the original intent and purpose of each fund, and the degree to which each fund achieves its stated purpose. The reviews are scheduled so that the funds administered by each state department will be reviewed once every five years. This is our second review of the revolving funds, trust funds, and trust accounts of these four departments.

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 established by general fund seed moneys and then replenished through loan repayments. *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 a separate holding or clearing account for state agencies. Often a trust account is an accounting device to credit or charge agencies or projects for payroll or other costs.

Of the 78 funds and accounts we reviewed this year, 21 were revolving funds, 11 were trust funds, and 46 were trust accounts. We used criteria developed by the Legislature and 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 and charges made on users and also be an appropriate financing 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 Accounting and General Services, Agriculture, Budget and Finance, and Land and Natural Resources. The Department of Accounting and General Services disagrees with



our conclusion that the State Risk Management Revolving Fund does not meet the criteria for a revolving fund. The department stated that the fund is a cost-effective financing mechanism for the program and has made budgeting and expending for losses more manageable. However, the department agrees that the fund does not generally provide a clear link between the benefit sought and charges made upon users and is not self-sustaining.

The Department of Agriculture noted that once a specific Agribusiness Development Corporation project is identified, determined feasible, and implemented successfully, charges will be assessed and deposited into the Hawaii Agricultural Development Revolving Fund. The department also pointed out that the Temporary Deposit, Meat Grading account is needed to collect fees and make payments to the U.S. Department of Agriculture for meat grading services. It reports that only a small portion of the meat grader's services is subsidized by the State.

Points of clarification provided by the Department of Accounting and General Services and Department of Agriculture were incorporated into the report. Updated financial information provided by the Department of Budget and Finance was also incorporated into the report. The Department of Land and Natural Resources did not submit a written response.

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