OVERVIEW

Review of Revolving Funds, Trust Funds, and Trust Accounts of the Department of the Attorney General, the Department of Business, Economic Development, and Tourism, and the University of Hawaii

Report No. 00-07, February 2000

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 third review of the revolving and trust funds of these three 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 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 82 funds and accounts we reviewed this year, 56 were revolving funds, 12 were trust funds, and 14 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 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 the Attorney General and Business, Economic Development, and Tourism, and the University of Hawaii.

The Department of the Attorney General disagrees with our conclusion that the Criminal Forfeiture Revolving Fund does not meet all four criteria of a revolving fund. The department stated the program is funded by criminal forfeitures, which it maintains are charges assessed on the criminals, who are "users" of the criminal justice system. However, in maintaining that the criminal justice system and law enforcement benefit from the fund, the department disregards the linkage requirement—that those who pay into a revolving fund should benefit from that fund.

The department also pointed out that it is allowed to use interest earnings from the Temporary Deposit-Child Support Enforcement Services Account as part of its funding for projects such as implementation of its automated child support system (KEIKI). It reports that because a trust account is also used as an accounting conduit to credit the agency for projects such as the KEIKI system, the account is being used in accordance with policy. We disagree. The practice of depositing excess interest earnings into the trust account and expending the commingled funds does not conform to the original purpose of the account—interest earnings are to be used for costs related to maintenance and operation of the account, with the balance to be transferred to the general fund.

The Department of Business, Economic Development, and Tourism noted that use of the Petroleum Products Control Fund represents the direct costs of the State in preparing for and implementing measures (programs) essential to the health, welfare, and safety of the public in response to an energy emergency. It reports that in an energy emergency, it would assess fees and charges to users benefiting from specific energy emergency response and recovery measures. We believe that these assessments may not be sufficient to meet the self-sustainability and linkage criteria of a revolving fund since the fees and charges are based on uncertain energy emergency events.

The University of Hawaii responded that it considered our review an opportunity for improving the administration of funds and accounts and of its finances in general.

Updated financial information provided by the Department of the Attorney General was incorporated into the report. Points of clarification provided by the Department of Business, Economic Development, and Tourism were also incorporated into the report.

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