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# Auditor's Summary

## Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Land and Natural Resources

*107 special funds, revolving funds, trust funds, and trust accounts were reviewed*

Report No. 18-19

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### 17 funds and accounts did not meet criteria

**WE REVIEWED 107 FUNDS AND ACCOUNTS** administered by the Department of Land and Natural Resources (DLNR) and reported on 37 of them – specifically, 18 special funds, 1 revolving fund, 9 trust funds, and 9 trust accounts. We found 9 special funds, 4 trust funds, and 4 trust accounts did not meet criteria – specifically, 8 special funds and 1 trust fund should be evaluated to determine if they should be continued; 1 special fund, 2 trust funds, and 2 trust accounts should be closed; 2 trust accounts should be reclassified to trust funds; and 1 trust fund should be reclassified to a trust account.

Section 23-12, Hawai'i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds every five years. Reviews are scheduled so that each department's funds are reviewed once every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our sixth review of DLNR's revolving funds, trust funds, and trust accounts, and our second review of DLNR's special funds.

We used criteria developed by the Legislature and by our office based on public finance and accounting literature. For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not audit the financial data which is provided for informational purposes. We do not present conclusions about the effectiveness of programs or their management, or whether the programs should be continued.

### Inactive funds result in unused moneys of nearly \$1.9 million

Three special funds and their related sub-accounts with remaining balances of nearly \$1.9 million as of June 30, 2018, had no financial activity during the 5-year period of our review. Leaving significant amounts of money in idle accounts is an inefficient use of public funds.



#### FUND TYPES

##### **SPECIAL FUNDS**

are used to account for revenues earmarked for particular purposes and from which expenditures are made for those purposes.

##### **REVOLVING FUNDS**

such as loan funds, are often established with an appropriation of seed money from the general fund, and must demonstrate the capacity to be self-sustaining.

##### **TRUST FUNDS**

such as a pension fund, invoke the State's fiduciary responsibility to care for and use the assets held to benefit those with a vested interest in the assets.

##### **TRUST ACCOUNTS**

are typically separate holding or clearing accounts and are often used as accounting devices for crediting or charging state agencies or projects for payroll and other costs.

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## Reporting shortfall

We noted that DLNR did not file statutorily required reports for non-general funds and for administratively created funds. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

## Over \$26 million of State's portion of ceded land revenues were not transferred to the State general fund in a timely manner

DLNR's trust account which holds the State's portion of ceded land revenues accumulated approximately \$30 million of ceded land proceeds through June 30, 2017. In FY2018, in accordance with Act 178, SLH 2006, DLNR transferred the FY2016 fund balance, over \$26 million, to the State general fund after receiving direction from the Department of Budget and Finance (B&F). There were no transfers made to the State general fund during FY2014 – FY2017. DLNR should work with B&F to ensure that the general fund portion of ceded land proceeds are transferred to the State general fund at least annually.

## Agency response

For 6 funds and 2 accounts, DLNR agreed with our assessment that they did not meet the criteria for those types of funds and accounts. DLNR represented that it will take appropriate action to evaluate whether those funds and accounts should be continued, closed, or reclassified. However, DLNR did not agree with our assessment that 6 funds and 2 accounts did not meet the criteria for those types of funds and accounts. After reviewing DLNR's reasoning as expressed in its response to the report, we maintain that our analyses are appropriate. We confirm our conclusions that those funds and accounts should be continued, closed, or reclassified.

In reference to the Special Land and Development Fund, we found it did not completely meet criteria of a special fund because there is no clear nexus between the program and the portion of the highway fuel tax that is one of the fund's sources of revenue. DLNR asserts that there is a nexus between the highway fuel tax and the protection of natural resources. Specifically, according to DLNR, visitors pay the highway fuel tax which funds the department's natural resource protection programs and, in turn, helps to ensure sufficient access to the State's natural resources to meet the needs of those visitors. While we agree that State's natural beauty is important to the visitor industry, the "nexus" articulated by DLNR between the fuel tax and the visitor industry is too tenuous. There must be a clear link between the revenue source and the program, which we did not find.

As to our other observations, DLNR agreed that any inactive balances will be returned to the originating fund; that they will comply in filing the required statutory reports; and work with the Department of Budget and Finance to ensure the transfer of the State portion of ceded land revenues annually.