
Auditor's Summary

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Transportation

Three hundred seventy-seven special funds, revolving funds, trust funds, and trust accounts were reviewed

Report No. 19-05

24 funds and accounts did not meet criteria

WE REVIEWED 377 FUNDS AND ACCOUNTS administered by the Department of Transportation (DOT) and reported on 46 of them – specifically, 14 special funds, 21 revolving funds, 5 trust funds, and 6 trust accounts. We found 5 special funds, 17 revolving funds, 1 trust fund, and 1 trust account did not meet criteria – specifically, 16 revolving funds should be reclassified as trust accounts and 1 trust account should be reclassified as a trust fund; 2 special funds should be evaluated to determine whether they should be closed; and 3 special funds, 1 revolving fund, and 1 trust fund should be closed.

Section 23-12, Hawai'i Revised Statutes (HRS), requires the Auditor to review each department's special, revolving, and trust funds every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our sixth review of DOT's revolving funds, trust funds, and trust accounts, and our second review of DOT'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 accounts result in unused moneys of approximately \$120 million

WE NOTED CERTAIN SUB-ACCOUNTS of 3 special funds, 3 revolving funds, and 1 trust fund with remaining balances totaling approximately \$120 million as of June 30, 2018, had no financial activity during our 5-year review period. DOT represents that certain revolving funds, which we determined should be reclassified as trust accounts, are required by bond certificate provisions to hold debt service payments relating to revenue bonds.



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.

Reporting shortfall

WE ALSO NOTED that DOT did not report its administratively created funds to the Legislature, as required by statute. Because these funds are created outside of the legislative process, the Legislature may have limited, if any, understanding as to the existence of the funds or the moneys held in the funds. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

DOT created funds inappropriately

SPECIAL FUNDS AND REVOLVING FUNDS can only be established pursuant to an act of the Legislature. DOT created 2 funds – specifically, 1 special fund and 1 revolving fund – administratively, outside of the legislative process. Because those funds were inappropriately created, we recommended that they be closed.

Agency response

Airports Division

Airports Division agreed with our findings and recommendations. Airports Division said that it intends to reclassify the revolving funds we identified as not meeting the statutory criteria for a revolving fund to trust accounts; review the sub-accounts to the Airport Revenue Fund for Construction and Design that had no activity during our review period and close sub-accounts that are no longer needed; and include the Airport Sinking Fund for Retirement Term Bond in its Non-General Funds reports to the Legislature, as required by statute.

Harbors Division

Harbors Division acknowledged our findings and recommendations regarding its revolving funds we identified as not meeting the statutory criteria for a revolving fund. Harbors Division intends to implement the recommendations to reclassify those revolving funds to trust accounts and reported that the balance of the Aloha Tower Fund was transferred and the fund subsequently closed.

Harbors Division suggested some minor technical edits to the report, which we have incorporated. We note that these edits are for clarification purposes only and do not impact our analysis of Harbors Division's funds.

In its response, Harbors Division did not address our finding regarding the Risk Management Fire and Casualty Losses – Harbors trust fund, which we found should be closed. Moreover, Harbors Division did not address our observations regarding inactive accounts and non-compliance with statutory requirements for reporting. We must emphasize that they should close the inactive sub-accounts and comply with statutory reporting requirements.

Highways Division

Highways Division agreed with our findings and recommendations regarding its revolving funds we identified as not meeting the statutory criteria for a revolving fund and states that it will evaluate reclassifying them as trust accounts.

Highways Division acknowledged that the Safe Routes to School Program Special Fund and the Motorcycle and Motor School Operations Education Fund can be funded through the general fund

appropriation process. Highways Division said that the revenue for these funds are transferred from other State agencies' special funds and, therefore, questions whether the general fund appropriation process is applicable. This additional information did not impact our final analyses as the current source of revenue is immaterial if this program were to be funded through the general fund appropriation process as Highways Division concedes is possible. We also note that Highways Division did not provide this information to us in their response to questionnaires about its funds, during multiple discussions about its funds, or at the exit conference. In the report (at pages 5-6), we document the difficulties that we encountered in obtaining information from Highways Division, including the less-than-complete responses and information we were provided about its funds. For us to thoroughly assess a department's funds, it is important that we receive complete and timely information.

Highways Division disagreed with our conclusion that the Safe Routes to School Program Special Fund does not meet the criteria of a special fund due to partial nexus between the program and source of revenue. We recognize the Legislature's desire to secure a source of funding to make the Safe Routes to School Program permanent, however, as we explained in the report, we did not find convincing evidence of sufficient nexus between the program and one of the sources of revenue, which is one of the statutory criteria required of a special fund.

Highways Division did not object to our determination that the Special Deposits – Highways trust account should be reclassified to a trust fund and that the Highway Senior Debt Service Reserve Account and Transportation Improvement Special Fund should be closed because these funds no longer serve their original purpose. We assume that the Highways Division intends to follow our recommendations with respect to that account and those funds. Finally, although Highways Division did not address our observations regarding inactive accounts and non-compliance with statutory requirements for reporting, we must emphasize that they should close the inactive sub-accounts and comply with reporting requirements.