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# Auditor's Summary

## Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Human Services

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

Report No. 21-02

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### Six funds did not meet criteria

**WE REVIEWED 41 FUNDS AND ACCOUNTS** administered by the Department of Human Services (DHS) and its administratively attached agency, the Hawai'i Public Housing Authority (HPHA) – specifically, 15 special funds, 8 revolving funds, 7 trust funds, and 11 trust accounts. We found 1 special fund, 3 revolving funds, 1 trust fund, and 1 trust account did not meet criteria. We recommended the special fund, the trust fund, and one revolving fund be closed because they no longer serve the purpose for which they were originally established. We also recommended that the trust account be reclassified to a trust fund and one revolving fund be reclassified to a special fund. Lastly, we recommended that one revolving fund be repealed because it is not financially self-sustaining.

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 the DHS' revolving funds, trust funds, and trust accounts, and our second review of the DHS' 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.

### Reporting shortfall

**WE NOTED THAT DHS AND HPHA** did not file statutorily required reports for non-general funds totaling approximately \$12.6 million and administratively created non-general funds totaling approximately \$5.6 million. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.



#### 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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## Agency response

**DHS LARGELY AGREED** with our conclusions and plans to implement our recommendations as soon as practical.

DHS disagreed with our conclusion that the Public Housing Revolving Fund should be reclassified to a special fund. A revolving fund is a fund from which is paid the cost of goods and services rendered or furnished to or by a state agency and which is replenished through charges made for the goods or services. Revenues for the fund include all moneys received or collected by HPHA, that are not otherwise pledged. As such, we maintain our analysis of this fund was appropriate and correct based upon the information DHS provided to us during the review process and fund definitions provided in statute.

DHS also disagreed with our conclusion that the State Low-Income Housing Revolving Fund should be repealed. Revolving funds must demonstrate the capacity to be financially self-sustaining. This fund's expenditures exceeded revenues in four of the five years under review and the fund required general fund support in FY2019 and FY2020. DHS' response did not provide information that supports or otherwise justifies amending our conclusion that the fund is not financially self-sustaining.