

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

A Report to the Governor
and the Legislature of
the State of Hawai'i

Report No. 18-15
October 2018



OFFICE OF THE AUDITOR
STATE OF HAWAII



OFFICE OF THE AUDITOR STATE OF HAWAII

Constitutional Mandate

Pursuant to Article VII, Section 10 of the Hawai'i State Constitution, the Office of the Auditor shall conduct post-audits of the transactions, accounts, programs and performance of all departments, offices and agencies of the State and its political subdivisions.

The Auditor's position was established to help eliminate waste and inefficiency in government, provide the Legislature with a check against the powers of the executive branch, and ensure that public funds are expended according to legislative intent.

Hawai'i Revised Statutes, Chapter 23, gives the Auditor broad powers to examine all books, records, files, papers and documents, and financial affairs of every agency. The Auditor also has the authority to summon people to produce records and answer questions under oath.

Our Mission

To improve government through independent and objective analyses.

We provide independent, objective, and meaningful answers to questions about government performance. Our aim is to hold agencies accountable for their policy implementation, program management, and expenditure of public funds.

Our Work

We conduct performance audits (also called management or operations audits), which examine the efficiency and effectiveness of government programs or agencies, as well as financial audits, which attest to the fairness of financial statements of the State and its agencies.

Additionally, we perform procurement audits, sunrise analyses and sunset evaluations of proposed regulatory programs, analyses of proposals to mandate health insurance benefits, analyses of proposed special and revolving funds, analyses of existing special, revolving and trust funds, and special studies requested by the Legislature.

We report our findings and make recommendations to the Governor and the Legislature to help them make informed decisions.

For more information on the Office of the Auditor, visit our website:
<http://auditor.hawaii.gov>

Foreword

This is a report of our review of the special funds, revolving funds, trust funds, and trust accounts of the Department of Agriculture.

Section 23-12, Hawai‘i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds 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 revolving funds, trust funds, and trust accounts, and our second review of the special funds of the Department of Agriculture.

We wish to express our appreciation for the cooperation and assistance extended to us by the officials and staff of the Department of Agriculture.

Leslie H. Kondo
State Auditor

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Chapter 1

Introduction

This review encompasses the special funds, revolving funds, trust funds, and trust accounts administered by the State of Hawai‘i Department of Agriculture (DOA). Section 23-12, Hawai‘i Revised Statutes (HRS), requires the Auditor to review each State department’s special, revolving, and trust funds every five years. Specifically, the Auditor’s review must include:

1. An evaluation of the original intent and purpose of each fund, both as expressed by the Legislature and as understood by the expending agency;
2. The degree to which each fund achieves its stated and claimed purposes;
3. An evaluation of the fund’s performance standards as established by the agency; and
4. A summary statement reflecting total fund transactions in the preceding five fiscal years, including the fund balance at the beginning of each fiscal year, total deposits and withdrawals, amount of interest earned, total expenditures made from the fund, and the ending balance for each fiscal year.

Although not mandated by Section 23-12, HRS, we have included trust accounts as part of our review. Trust accounts, like special, revolving, and trust funds, are subject to minimal legislative scrutiny.

This is our sixth review of DOA’s revolving funds, trust funds, and trust accounts.¹ However, it is our second review of their special funds, since Act 130, Session Laws of Hawai‘i 2013, amended Section 23-12, HRS, to require we review special funds along with revolving funds and trust funds. We last examined these funds and accounts in 2013.

In this report, we reviewed 50 funds and accounts administered by DOA and reported on 31 of them – specifically, 14 special funds, 7 revolving funds, 3 trust funds, and 7 trust accounts.

¹ Prior to 2013, Section 23-12, HRS, did not require reviews of departments’ special funds.

Description of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts

Special funds

Section 37-62, HRS, defines a special fund as one that is “dedicated or set aside by law for a specified object or purpose, but excluding revolving funds and trust funds.” According to the State’s Accounting Manual, special funds are funds used to account for revenues earmarked for particular purposes and from which expenditures are made for those purposes.

Revolving funds

Section 37-62, HRS, defines a revolving fund as one “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 or through transfers from other accounts or funds.” Activities commonly financed through revolving funds include loan programs, which are initially established by general fund seed moneys and are then replenished through the repayment of loans.

Trust funds

Section 37-62, HRS, defines a trust fund as one in which “designated persons or classes of persons have a vested beneficial interest or equitable ownership, or which was created or established by a gift, grant, contribution, devise or bequest that limits the use of the fund to designated objects or purposes.” Trust funds invoke a fiduciary responsibility of state government to care for and use only for those designated to benefit from the funds. A pension fund is an example of a trust fund. Contributions and payments are to be held for the beneficiaries of the pension fund. Another example is tenants’ security deposits, which are held in trust for the future benefit of tenants and landlords. Until forfeited or returned, deposits are the property of the tenants and should be accounted for accordingly.

Trust accounts

The Department of Accounting and General Services (DAGS) defines a trust account as a separate holding or clearing account for State agencies. Trust accounts also serve as accounting devices to credit or charge agencies or projects for payroll or other costs.

Criteria for Reviewing Special Funds, Revolving Funds, Trust Funds, and Trust Accounts

Special and revolving fund criteria

In 2002, the legislature set the requirements for establishing and continuing special and revolving funds. Sections 37-52.3 and 37-52.4, HRS, state that special and revolving funds may only be established by statute. The criteria used to review special and revolving funds are the extent to which each fund:

- Serves a need, as demonstrated by: (a) the purpose of the program to be supported by the fund; (b) the scope of the program, including financial information on fees to be charged, sources of projected revenue, and costs; and (c) an explanation of why the program cannot be implemented successfully under the general fund appropriation process;
- Reflects a clear nexus between the benefits sought and charges made upon the program users or beneficiaries, or a clear link between the program and the sources of revenue – as opposed to serving primarily as a means to provide the program or users with an automatic means of support, removed from the normal budget and appropriation process;
- Provides an appropriate means of financing for the program or activity that is used only when essential to the successful operation of the program or activity; and
- Demonstrates the capacity to be financially self-sustaining.

Trust fund and trust account criteria

Unlike the requirements for special and revolving funds, the law is silent on whether a trust fund or trust account must be established by statute. The criteria used to review trust funds and trust accounts are the extent to which each fund and account:

- Continues to serve the purpose and intent for which it was originally created; and
- Meets the definition of a trust fund or trust account, respectively.

The first criterion is derived from the objectives of Section 23-12, HRS, which requires the Auditor to evaluate the original intent of each fund and account and the degree to which each fund and account achieves its stated purpose. The second criterion assesses whether a fund is held by the State only for the benefit of those with a vested interest in the assets or an account is held as a separate or clearing account.

Objectives of the Review

1. Identify and review all special funds, revolving funds, trust funds, and trust accounts of DOA.
2. For each special fund, revolving fund, trust fund, and trust account, determine whether the fund or account meets the respective criteria.
3. Provide a five year (FY2014 – FY2018) unaudited financial summary for each fund and account reviewed.

Scope and Methodology

We reviewed all special funds, revolving funds, trust funds, and trust accounts directly administered by DOA during the five-year period under review (FY2014 – FY2018). Funds and accounts included those established by statute as well as by administrative authority.

To identify funds subject to this review, we used a variety of sources, including our prior reviews, accounting reports from DAGS, non-general fund reports, legislative budget briefing documents, and other records. To gain an understanding of fund operations, we reviewed applicable agency administrative rules and interviewed key fiscal and program personnel, as necessary.

We obtained a summary statement for each fund that reflects total fund transactions in the preceding five fiscal years (July 1, 2013 to June 30, 2018), including beginning fund balances, total revenues, amount of interest earned, total expenditures, transfers, and ending

fund balances for each fiscal year. We requested explanations for discrepancies between ending balances for FY2013 reported in our last review and opening balances reported for FY2014. **We did not audit DOA's financial data, which are provided for informational purposes only.**

Procedures were performed on each fund using relevant criteria as stated above. We reviewed fund information for consistency with the intent of each fund's use and to ascertain the relationship between charges on users and expenditures. We reviewed and compared fund balances to financial activity and projected program needs and standards. We reviewed information on performance standards established for the funds or accounts and performed other procedures as necessary.

Where appropriate, we relied on our prior reports, including Report No. 14-01, *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Accounting and General Services, Agriculture, and Budget and Finance*.

Our review was conducted in September 2018. Recommendations were made where applicable.

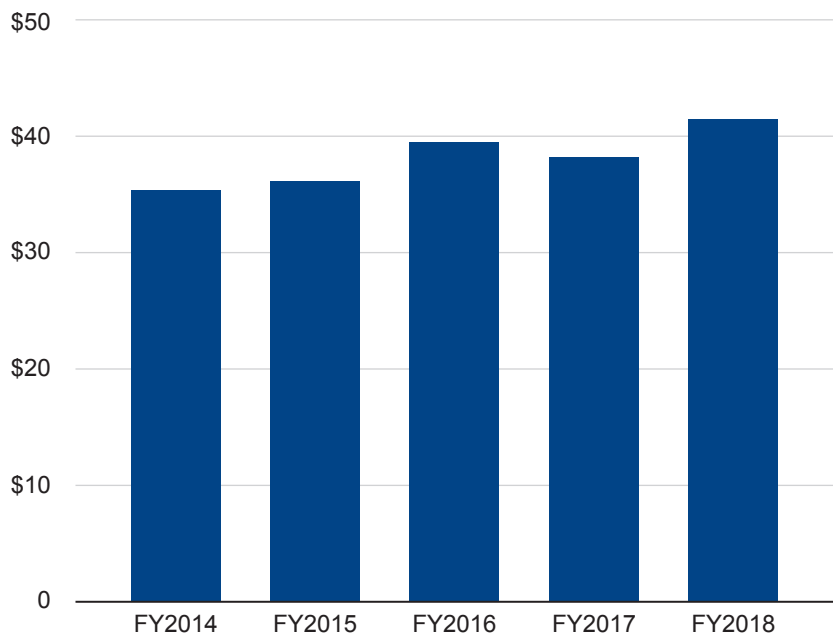
Chapter 2

Department of Agriculture

This section presents the results of our review of 14 special funds, 7 revolving funds, 3 trust funds, and 7 trust accounts. Fund fiscal year-end balances amounted to at least \$35 million per year during the period reviewed.

Exhibit 2.1 displays the totals for these fund balances at the end of each fiscal year.

Exhibit 2.1
Cash Balances for DOA Non-General Funds
FY2014 – FY2018 (in millions)



Source: Office of the Auditor

Substantial amounts were also collected and expended by the funds annually. In FY2018, the special funds, revolving fund, trust funds, and trust accounts collected more than \$26 million and spent or transferred more than \$23 million.

Exhibit 2.2 presents totals for the combined revenue and interest, expenses and transfers, and ending fund balances for the different fund types for FY2018.

Exhibit 2.2
DOA Fund and Account Totals by Type, FY2018

Fund Type	Revenue and Interest	Expenses and Transfers	FY2018 End Cash Balance
Special Funds	\$16,408,000	\$16,116,000	\$26,702,000
Revolving Funds	9,795,000	6,836,000	13,647,000
Trust Funds and Trust Accounts	418,000	362,000	1,128,000
Total	\$26,621,000	\$23,314,000	\$41,477,000

Source: Office of the Auditor

For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use and whether it meets the definition of a special fund, revolving fund, trust fund, or trust account. We do not assess the effectiveness of programs and their management. The funds are presented in alphabetical order.

Exhibit 2.3 presents DOA's funds that did not meet criteria and should be evaluated for continuance, closure, or reclassification.

Exhibit 2.3
DOA Funds Not Meeting Criteria

Fund Name	Fund Type	FY2018 Ending Balance (rounded)	No longer serves original purpose and/or does not serve a need	No clear nexus between benefits sought and user charges or a clear link between the program and revenue sources	Inappropriate financing mechanism	Not financially self-sustaining	Does not meet special fund, revolving fund, trust fund, or trust account definition
Agricultural Development and Food Security Special Fund	Special	\$9,223,000		✓ *	✓		
Agricultural Park Special Fund	Special	1,778,000			✓		
Hawai'i Department of Agriculture Biocontrol Foreign Exploration Special Fund	Special	10,000	✓	✓	✓	✓	✓
Hawai'i Water Infrastructure Special Fund	Special	436,000					✓
Irrigation System Revolving Fund	Revolving	3,573,000			✓	✓	
Non-Agricultural Park Lands Special Fund	Special	2,221,000			✓		
Waiāhole Water System Revolving Fund	Revolving	1,821,000			✓		
Total		\$19,062,000					

* There is a partial nexus between the benefits sought and charges made upon the program users or beneficiaries.

Source: Office of the Auditor

**Agribusiness
Development
Corporation Land
Performance Bond
(trust account)**

***Administratively
established***

Financial Data for Fiscal Years 2015 – 2018 (in thousands)

	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$0	\$20	\$20	\$26
Revenues	20	0	6	0
Interest	0	0	0	0
Expenditures	0	0	0	0
Transfers	0	0	0	0
Ending Balance	\$20	\$20	\$26	\$26
Encumbrances	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 2015, the account temporarily holds performance bonds equal to two times the base rent collected from lessees who lease land from the Agribusiness Development Corporation (ADC). The bonds are held in the event lessees default on lease terms, conditions, and covenants, in which case the bond amount is paid to ADC as liquidated and ascertained damages. Revenues are from bond payments, and there were no expenditures during our review period.

**Agricultural
Development and Food
Security Special Fund
(special fund)**

Section 141-10, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance*	\$8,791	\$8,065	\$8,230	\$9,553	\$8,875
Revenues	3,772	3,781	3,909	3,853	3,946
Interest	23	33	48	59	51
Expenditures	(4,637)	(3,649)	(2,634)	(4,590)	(3,649)
Transfers**	116	0	0	0	0
Ending Balance	\$8,065	\$8,230	\$9,553	\$8,875	\$9,223
Encumbrances	\$1,220	\$1,729	\$2,214	\$2,525	\$2,314

*This fund is the original source of revenue (parent account) for multiple sub-accounts. The FY2013 ending balance reported in our last DOA funds review, Report No. 14-01, did not reflect the sub-accounts. The financial data for FY2014 – FY2018 reflects a consolidation of the parent and sub-accounts.

**Transfer to advance funds to the Food Security Metrics System account prior to the account's receipt of a grant to fund a Food Sustainability Study.

This fund only partially meets criteria of a special fund and continues to serve the purpose for which it was originally created. Statutorily created in 2010, the fund supports activities intended to increase agricultural production or processing that may lead to reduced importation of food, fodder, or feed from outside the State. Revenues are from a portion of the State environmental response, energy, and food security tax; appropriations by the Legislature; grants and donations; and any interest earned on the fund balance.

The State environmental response, energy, and food security tax is imposed on each barrel or fractional part of a barrel of petroleum product sold by a distributor to any retail dealer or end user, other than a refiner. The tax is \$1.05 on each barrel or fractional part of a barrel of petroleum product that is not aviation fuel, of which 15 cents is deposited into this fund. An additional tax of 19 cents is also imposed on each one million British thermal units of fossil fuel sold by a distributor to any retail dealer or end user, other than a refiner. Fourteen and three-tenths percent of the tax on each one million British thermal units is deposited into this fund. Expenditures include DOA's program costs to support measurement standards; general agriculture administration; agricultural and agribusiness development; plant pest and disease control; agricultural resource management; quality and price assurance; and the biosecurity and farm to school programs.

One of the criteria for special funds is whether a clear nexus exists between the benefits sought and charges made upon program users or beneficiaries, or whether a clear link exists between the program and its sources of revenue. We found a partial nexus, in that benefits accrue to the State from charges made on petroleum and fossil fuel usage through the environmental response, energy, and food security tax. But, we also noted only a partial correlation between the source of revenue, a tax on petroleum products and fossil fuels, and the programs designed to support food security. According to DOA, most of the programs supported by this special fund could be budgeted through general fund appropriations.

***Agricultural Loan
Reserve Fund
(special fund)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$1,742	\$1,670	\$1,844	\$1,344	\$1,212
Revenues	743	1,091	438	783	922
Interest	13	17	30	35	21
Expenditures	(828)	(934)	(968)	(950)	(978)
Transfers	0	0	0	0	0
Ending Balance	\$1,670	\$1,844	\$1,344	\$1,212	\$1,177
Encumbrances	\$42	\$12	\$2	\$64	\$34

This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally created. Administratively created circa 1959, this fund works in tandem with the Agricultural Loan Revolving Fund to help farmers, ranchers, and food manufacturers obtain credit and emergency loans. Revenues are from interest on loans, investment income, and rent. Expenditures include loan program costs and a State special fund assessment. Moneys determined to be in excess of loan program operating needs are transferred to the Agricultural Loan Revolving Fund, which also receives money from the repayment of loan principal.

***Agricultural Loan
Revolving Fund
(revolving fund)***

Section 155-14, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$3,207	\$2,681	\$2,312	\$3,703	\$2,215
Revenues	2,393	2,247	4,286	2,419	4,058
Interest	0	0	0	0	0
Expenditures	(2,919)	(2,616)	(2,895)	(3,907)	(1,699)
Transfers	0	0	0	0	0
Ending Balance	\$2,681	\$2,312	\$3,703	\$2,215	\$4,574
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund meets the criteria of a revolving fund and continues to serve the purpose for which it was originally created. Statutorily created in 1959, the fund supports Hawai'i agriculture by granting agricultural loans and securing credit for applicants. It assists farmers, ranchers, farm organizations, and food manufacturers in obtaining credit through direct loans, participation loans with private lenders, and loan guarantees. The fund is replenished from the repayments of loan principal which can then

be used for new loans. Moneys from the fund may also be transferred to the Aquaculture Loan Revolving Fund. Interest income from loans is deposited in a related fund, the Agricultural Loan Reserve Fund, which may transfer moneys to this fund after payment of operational expenses and consulting services.

In fiscal years 2014, 2016, and 2018, this fund received supplemental general fund appropriations of \$750,000, \$1,800,000, and \$1,500,000, respectively, to increase the fund's agriculture loan portfolio.

***Agricultural Park
Special Fund
(special fund)***

Section 166-10, HRS

Financial Data for Fiscal Years 2014 — 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$1,552	\$1,760	\$1,636	\$1,677	\$1,768
Revenues	439	442	498	495	533
Interest	4	7	10	13	11
Expenditures	(358)	(573)	(467)	(417)	(534)
Transfers*	123	0	0	0	0
Ending Balance	\$1,760	\$1,636	\$1,677	\$1,768	\$1,778
Encumbrances	\$229	\$27	\$19	\$175	\$192

*Transfer from the Agricultural Park Special Fund Escrow Account.

This fund does not meet all the criteria of a special fund because the program it supports can be successfully implemented under the general fund appropriation process, but it continues to serve the purpose for which it was originally created. Statutorily created in 1986, the fund is used for establishing, operating, maintaining, and improving infrastructure improvements in agricultural parks and related facilities. Revenues are from moneys collected from agricultural park projects, including residential and agricultural lot lease rents; money received by DOA for the use and maintenance of domestic and irrigation water systems within an agricultural park and other systems; appropriations; appraisal and miscellaneous fees; and interest earned or accrued on the fund balance. Expenditures include payments of agricultural park lease rents of privately owned lands under lease to the State; and costs to establish, operate, maintain, and improve infrastructure improvements in agricultural parks and related facilities, including salaries, equipment rentals, and consultant and construction contracts. Under Section 37-52.3, HRS, an examination of why a program or activity cannot be implemented successfully under the general fund appropriation process must be conducted. Although the fund is self-sustaining, DOA asserts that this program can be funded through the general fund appropriation process if the Legislature so desires.

**Agricultural Park
Special Fund Escrow
Account
(special fund)**

**Administratively
established**

Financial Data for Fiscal Year 2014 (in thousands)

	FY2014
Beginning Balance	\$123
Revenues	0
Interest	0
Expenditures	0
Transfers*	(123)
Ending Balance	\$0
Encumbrances	\$0

*Transfer to the Agricultural Park Special Fund.

This special fund was closed in FY2015 after the remaining balance was transferred to the Agricultural Park Special Fund. Administratively created in 1998, the fund was used to collect 20 percent of lease rent from ceded lands from FY1998 – FY1999 for the agricultural parks program. The money was to be held pending the outcome of litigation by the Office of Hawaiian Affairs, which settled a lawsuit with the State regarding ceded lands in 2012. Revenues were only from interest earned on the fund balance, as the fund was inactive since FY1999.

**Animal Industry
Special Fund
(special fund)**

Section 142-3.6, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$0	\$0	\$0	\$0	\$0
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund meets the criteria of a special fund and is expected to serve the purpose for which it was originally created. Statutorily created in 2012, the fund was established to cover various costs of DOA's division of animal industry, provided that the moneys may also be used to fund the department's resource management and planning programs.

Revenues are expected to come from lease-rent for an 8.25-acre parcel at the animal quarantine facility in Hālawā Valley on O'ahu, which is

included in the approximately 24.7 acres that would be used for the construction of the State Department of Public Safety's new prison facility. According to Section 142-3.5, HRS, the Board of Agriculture may contract with third parties for the use or rental of the division of animal industry's property or facilities, provided that the property or facilities shall be used for animal welfare, including emergency shelters for animals, or other commercial purposes. Revenues may also come from the use or rental of the division of animal industry's properties or facilities; appropriations or other moneys made available to the Board of Agriculture; and all interest earned or accrued on the fund balance. Moneys in the fund are expected to support positions reauthorized following the 2009 reduction-in-force and to defray animal quarantine costs. Expenditures may also include salaries, fringe benefits, operating expenses, equipment, motor vehicles, contracts with any qualified person or entity for livestock handling services, and operation and maintenance of the animal industry facilities.

A reserve shall be maintained in the fund to cover contingency costs, including accrued vacation leave, unemployment insurance, and workers' compensation. DOA plans to begin utilizing the fund within the next three years, upon approval of sufficient revenue sources.

***Animal Quarantine
Special Fund
(special fund)***

Section 142-28.5, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$2,100	\$2,185	\$1,996	\$1,950	\$1,238
Revenues	3,016	2,991	3,090	3,149	3,487
Interest	6	9	12	15	9
Expenditures	(2,937)	(3,189)	(3,148)	(3,876)	(3,778)
Transfers	0	0	0	0	0
Ending Balance	\$2,185	\$1,996	\$1,950	\$1,238	\$956
Encumbrances	\$175	\$105	\$577	\$221	\$228

This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally created. Statutorily created in 1998, the fund supports the State's Animal Quarantine Program which governs the importation of dogs, cats, and other carnivores into Hawai'i. Revenues are from quarantine and other fees. Expenditures include quarantine costs and contributions to a reserve.

**Aquaculture
Development Special
Fund
(special fund)**

Section 141-2.7, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$197	\$158	\$237	\$255	\$234
Revenues	24	141	38	40	47
Interest	1	1	1	2	2
Expenditures	(64)	(63)	(21)	(63)	(100)
Transfers	0	0	0	0	0
Ending Balance	\$158	\$237	\$255	\$234	\$183
Encumbrances	\$25	\$2	\$0	\$11	\$1

This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally created. Statutorily created in 2000, the fund supports the expansion of the State's aquaculture industry with disease management programs and research and development. Revenues are from a portion of offshore aquaculture leases and from aquatic animal health diagnostic services. Expenditures include costs to support aquaculture research and development activities, including industry development projects and aquatic animal health veterinarian expenses.

**Aquaculture Loan
Reserve Fund
(special fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$466	\$131	\$158	\$181	\$206
Revenues	15	22	16	16	15
Interest	3	5	7	9	7
Expenditures	0	0	0	0	0
Transfers*	(353)	0	0	0	0
Ending Balance	\$131	\$158	\$181	\$206	\$228
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfer to the Aquaculture Loan Revolving Fund.

This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally created. Administratively created circa 1972, the fund covers the operational expenses of the Aquaculture Loan Program which assists aquaculturists to obtain credit through direct loans, participation loans, loan guarantees, and emergency loans. Revenues are from aquaculture loan interest and fees. Loan principal payments from the aquaculture loans are deposited into the related Aquaculture Loan Revolving Fund. Balances determined to be in

excess of the loan program's operating needs can be transferred to the Aquaculture Loan Revolving Fund.

***Aquaculture Loan
Revolving Fund
(revolving fund)***

Section 219-4, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$663	\$1,021	\$1,030	\$1,032	\$891
Revenues	5	9	2	9	9
Interest	0	0	0	0	0
Expenditures	0	0	0	(150)	0
Transfers*	353	0	0	0	0
Ending Balance	\$1,021	\$1,030	\$1,032	\$891	\$900
Encumbrances	\$0	\$0	\$0	\$0	\$0

*Transfer from the Aquaculture Loan Reserve Fund.

This fund meets the criteria of a revolving fund and continues to serve the purpose for which it was originally created. Statutorily created in 1971, the fund supports the State's aquaculture industry by granting and securing credit for qualified applicants. The fund assists aquaculturists in obtaining credit through direct loans, participation loans with commercial lenders, loan guarantees, and emergency loans. Revenues are from moneys received from loan principal repayments. Interest and fees are deposited into a related fund, the Aquaculture Loan Reserve Fund, which can also transfer surplus balances to the Aquaculture Loan Revolving Fund after the program's expenses are paid.

***Certification Services
Revolving Fund
(revolving fund)***

Section 147-101, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$685	\$836	\$916	\$990	\$935
Revenues	512	328	383	241	209
Interest	2	3	6	7	6
Expenditures	(363)	(251)	(315)	(303)	(324)
Transfers	0	0	0	0	0
Ending Balance	\$836	\$916	\$990	\$935	\$826
Encumbrances	\$26	\$31	\$34	\$12	\$3

This fund meets the criteria of a revolving fund and continues to serve the purpose for which it was originally created. Statutorily created in

1994, the fund supports inspection services and was expanded in 2003 when it was consolidated with the Coffee Inspection Revolving Fund. The fund supports certification and audit services by inspectors for fresh fruits, vegetables, nuts, honey, coffee, flowers and foliage, processed foods, agricultural safety and security, and seed certification. Revenues are from fees collected from users of certification services. Expenses include salaries of inspectors and costs for the administration of the certification and audit services.

***Department of
Hawaiian Home Lands
Entitlement Proceeds
(trust fund)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$8	\$0	\$0	\$0	\$0
Revenues	5	0	10	21	11
Interest	0	0	0	0	0
Expenditures	(13)	0	(10)	(21)	(11)
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund meets the criteria of a trust fund and continues to serve the purpose for which it was originally created. Administratively created in 2009, the fund is used to collect a percentage of former sugarcane land rental revenues and transfers those proceeds to the Department of Hawaiian Home Lands (DHHL). The Hawai‘i Constitution provides that 30 percent of receipts from leasing cultivated sugarcane lands or water licenses be transferred to DHHL under the Hawaiian Homes Commission Act. The percentage also applies to lands sold, developed, transferred, or otherwise disposed of for purposes other than sugarcane cultivation.

***Hawai'i Agricultural
Development
Revolving Fund
(revolving fund)***

Section 163D-17, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$2,378	\$1,773	\$1,295	\$1,143	\$1,279
Revenues	1,234	1,201	1,514	2,036	2,010
Interest	6	7	8	11	18
Expenditures	(1,845)	(1,686)	(1,674)	(1,911)	(1,964)
Transfers	0	0	0	0	0
Ending Balance	\$1,773	\$1,295	\$1,143	\$1,279	\$1,343
Encumbrances	\$558	\$1,038	\$1,008	\$1,201	\$706

This fund meets the criteria of a revolving fund and continues to serve the purpose for which it was originally created, although there are questions about its capacity to be financially self-sustaining. Statutorily created in 1994, the fund accounts for revenues and expenditures related to the administration of the Agribusiness Development Corporation (ADC). ADC's objectives are to make optimal use of agricultural assets for the economic, environmental, and social benefit of the people of Hawai'i through improving irrigation infrastructure, managing property owned by ADC, and assisting with projects related to new or improved agricultural technology. Revenues are from rental income of land and buildings, sale of services provided to the U.S. Navy for pumping stations on Kaua'i, and administrative service fees. Expenditures include personnel payroll, fee for services, and the cost of materials and supplies which exceeded revenues in FY2014 – FY2016.

DOA maintains the fund is financially self-sustaining and that the program supported by the fund can be successfully implemented using general funds. The fund was scheduled to receive an annual general fund appropriation of \$50,601 for FY2014 – FY2018 to supplement program expenditures. In FY2014 – FY2017, the annual appropriation was not transferred out of the general fund to DOA. In FY2018, the general fund appropriation of \$50,601 was received by DOA and placed into this fund as revenue. The issue of general fund appropriations has been noted in four of our prior reviews of the fund, raising questions about its capacity to be financially self-sustaining.

***Hawai'i Department of
Agriculture Biocontrol
Foreign Exploration
Special Fund
(special fund)***

***Administratively
established***

Financial Data for Fiscal Years 2014 — 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$25	\$0	\$10	\$10	\$10
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	(15)	0	0	0
Transfers*	(25)	25	0	0	0
Ending Balance	\$0	\$10	\$10	\$10	\$10
Encumbrances**	\$0	\$2	\$0	\$0	\$0

*In January 2014, DOA asserted they closed the fund, but the fund remains open. In FY2014, DOA transferred \$25,000 back to Department of Land and Natural Resources (DLNR). In June 2014, the Hawai'i Invasive Species Council requested that DLNR transfer back the \$25,000 to DOA for use by the biocontrol research program under the Plant Pest Control Branch. In FY2015, DLNR transferred the funds back to DOA.

**DOA was unable to explain the disparity between the \$2,000 encumbrance in FY2015 and the \$0 encumbrance in FY2016, despite no expenditures in FY2016.

This fund does not meet the criteria of a special fund because it appears to be an appropriation account which is no longer needed and should be closed. Under Section 37-52.3, HRS, special funds can only be created by an act of the Legislature. Because the fund was not created by law, it does not meet the criteria of a special fund. Administratively created in 2010, the fund was used to receive moneys transferred from the Department of Land and Natural Resources (DLNR) to DOA, at the direction of the Hawai'i Invasive Species Council which is administratively housed at DLNR, to support the foreign exploration and research of biocontrol agents. Expenditures include program operating costs, the purchase of equipment, supplies, staff travel costs to foreign countries, and costs associated with the regulatory process for approval to release foreign biocontrol agents into the environment.

***Hawai'i Water
Infrastructure Special
Fund
(special fund)***

Section 155-34, HRS

Financial Data for Fiscal Years 2016 – 2018 (in thousands)

	FY2016	FY2017	FY2018
Beginning Balance	\$0	\$0	\$410
Revenues	0	760	25
Interest	0	0	1
Expenditures	0	(350)	0
Transfers	0	0	0
Ending Balance	\$0	\$410	\$436
Encumbrances	\$0	\$0	\$0

This fund does not meet the criteria of a special fund because it functions more like a revolving fund, but the fund continues to serve the purpose for which it was originally created. Statutorily created in 2016, the fund provides moneys for loans made by DOA to water utilities through the Hawai'i Water Infrastructure Loan Program. Revenues are from interest on loans, principal repayments, and loan fees. Expenditures include loan program expenses, including funding future loans and costs associated with the program, and the costs of the State's special fund assessment. Despite statutory requirement, expenses associated with the loan program are currently paid from the Agricultural Loan Reserve Fund rather than from this fund.

***Irrigation System
Revolving Fund
(revolving fund)***

Section 167-22, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$2,385	\$2,528	\$2,624	\$2,907	\$3,396
Revenues	1,156	1,079	1,099	1,148	1,059
Interest	6	11	16	23	22
Expenditures	(1,019)	(994)	(832)	(682)	(904)
Transfers	0	0	0	0	0
Ending Balance	\$2,528	\$2,624	\$2,907	\$3,396	\$3,573
Encumbrances	\$191	\$119	\$200	\$559	\$453

This fund does not meet the criteria of a revolving fund because the program it supports can be successfully implemented under the general fund appropriation process, but it continues to serve the purpose for which it was originally created. Statutorily created in 1987, the fund is used for various water projects and other purposes of the Board of Agriculture. Revenues are from legislative appropriations and all or any portion of receipts and revenues collected, as determined by the

Board of Agriculture, including irrigation water delivery fees, acreage assessments, and other miscellaneous fees. Expenditures include salaries, operations and maintenance, equipment rentals, consultant and construction contracts, administrative costs, engineering surveys, economic studies, plans, and maps. According to Section 167-22(b), HRS, in the event any moneys are expended from the Irrigation System Revolving Fund for engineering surveys, economic studies, plans, and other expenses directly attributable to any water project, or for the establishment of any water project, the amount of the expenditures shall be reimbursed to the Irrigation System Revolving Fund from any funds received by the Board of Agriculture for and on account of the project.

Under Section 37-52.4, HRS, an examination of why a program or activity cannot be implemented successfully under the general fund appropriation process must be conducted. Although the fund is self-sustaining, DOA asserts this program can be funded through the general fund appropriation process if the Legislature so desires.

***Milk Control Special
Fund
(special fund)***

Section 157-29, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$409	\$349	\$321	\$319	\$402
Revenues	92	86	93	95	112
Interest	1	1	2	2	3
Expenditures	(153)	(115)	(97)	(14)	(70)
Transfers	0	0	0	0	0
Ending Balance*	\$349	\$321	\$319	\$402	\$447
Encumbrances	\$3	\$2	\$1	\$0	\$0

*The fund is statutorily required to maintain a reserve of not less than \$300,000 for contingencies.

This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally created. Statutorily created in 1998, the fund supports the implementation of the Milk Control Act which creates order and stability in the milk industry. It allows for the regulation and supervision of the production, processing, storage, distribution, and delivery of milk, and allows for the establishment of quotas and minimum prices to be paid to milk producers by distributors. Revenues are from fees assessed to dairy producers and processors based on a percentage of the value of milk produced. Expenditures include personnel costs, supplies, vehicles, travel, and other program operational expenses.

**Non-Agricultural Park
Lands Special Fund
(special fund)**

Section 166E-7, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$1,067	\$1,255	\$1,144	\$1,548	\$1,852
Revenues	743	695	948	776	1,057
Interest	3	5	7	12	12
Expenditures	(558)	(811)	(551)	(484)	(700)
Transfers	0	0	0	0	0
Ending Balance	\$1,255	\$1,144	\$1,548	\$1,852	\$2,221
Encumbrances	\$202	\$16	\$33	\$94	\$65

This fund does not meet the criteria of a special fund because the program it supports can be successfully implemented under the general fund appropriation process, but it continues to serve the purpose for which it was originally created. Statutorily created in 2005, the fund is used to defray the costs incurred in managing, administering, and overseeing non-agricultural park lands that are transferred to DOA from the Department of Land and Natural Resources. Revenues are from rental income for leased land, appraisal fees, and other miscellaneous fees. Expenditures include personnel salaries, consultant fees, equipment, and other operations and maintenance costs of managing the program. Under Section 37-52.3, HRS, an examination of why a program or activity cannot be implemented successfully under the general fund appropriation process must be conducted. Although the fund is self-sustaining, DOA said this program can be funded through the general fund appropriation process if the Legislature so desires.

**Office of Hawaiian
Affairs Ceded Lands
Proceeds
(trust fund)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$122	\$41	\$41	\$41	\$41
Revenues	437	435	489	275	331
Interest	0	0	0	0	0
Expenditures	(518)	(435)	(489)	(275)	(331)
Transfers	0	0	0	0	0
Ending Balance*	\$41	\$41	\$41	\$41	\$41
Encumbrances	\$0	\$0	\$0	\$0	\$0

*DOA was unable to explain each fiscal year's ending balance of \$41,000.

This fund meets the criteria of a trust fund and continues to serve the purpose for which it was originally created. Administratively created

in 2003, the fund collects and transfers moneys owed to the Office of Hawaiian Affairs (OHA) for their 20 percent share of ceded land revenue from lands held in trust by DOA. Nevertheless, DOA was unable to explain each fiscal year's ending balance of \$41,000. Expenditures include moneys owed to OHA for use of ceded lands.

***Pest Inspection,
Quarantine, and
Eradication Fund
(special fund)***

Section 150A-4.5, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$5,501	\$7,777	\$8,816	\$9,630	\$10,161
Revenues	5,846	5,107	5,369	6,644	6,079
Interest	16	34	57	76	55
Expenditures	(3,645)	(4,102)	(4,612)	(6,189)	(6,285)
Transfers*	59	0	0	0	0
Ending Balance	\$7,777	\$8,816	\$9,630	\$10,161	\$10,010
Encumbrances	\$136	\$205	\$680	\$870	\$1,712

*Transfer from the Permit Revolving Fund which was repealed by Act 173, SLH 2010. The fund has a FY2018 ending balance of \$79.87 of interest which DOA will transfer into this fund and close that account.

This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally created. Statutorily created in 2007, the fund supports DOA's efforts to inspect, quarantine, control, and eradicate invasive species by preventing their introduction and spread in Hawai'i. Revenues are from fees collected for maritime cargo inspection, processing of permits, and quarantine activities. Expenditures include operating costs of pest inspection, quarantine, eradication, and monitoring programs and related purposes.

***Pesticide Use
Revolving Fund
(revolving fund)***

Section 149A-13.5, HRS

Financial Data for Fiscal Years 2014 — 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$913	\$900	\$1,026	\$698	\$326
Revenues	1,061	1,034	1,060	1,379	1,087
Interest	2	4	6	5	1
Expenditures	(1,076)	(912)	(1,394)	(1,756)	(805)
Transfers	0	0	0	0	0
Ending Balance	\$900	\$1,026	\$698	\$326	\$609
Encumbrances	\$423	\$580	\$88	\$48	\$178

This fund meets the criteria of a revolving fund and continues to serve the purpose for which it was originally created. Statutorily created in 1996, the fund supports the Pesticide Program's registration and licensing, certification and education, and compliance monitoring activities. Revenues are from pesticide product licensing fees, and other registration and training fees. Expenditures include personnel salaries and operating costs, including travel associated with program outreach and training.

Section 149A-13.5, HRS, provides that all unexpended funds remaining in the fund in excess of \$250,000 at the close of each fiscal year lapse into the State general fund. DOA was unable to confirm whether they transferred excess funds to the general fund in FY2014 to FY2016. In FY2017, DOA returned an excess amount of \$27,497 to the general fund and is in the process of calculating the excess amount for FY2018. Act 45, SLH 2018, directs all revenue collected by the program be deposited into this fund. As such, the annual ceiling for this fund was increased from \$250,000 to \$1,000,000, allowing DOA to retain more funds for outreach, disposal, rapid response, and other exercises that will assist the community by assuring that pesticide products, containers, and any pesticide poisonings can be attended to quickly and safely.

Plant Pest and Disease Control
(trust account)

Administratively established

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$37	\$36	\$36	\$36	\$36
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(1)	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$36	\$36	\$36	\$36	\$36
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in the 1950s, the account holds fees received from shipping companies for inspections conducted on an overtime basis for cargo entering the State at sites other than docks and piers pursuant to memorandums of agreement with DOA. The account is used to support off-site inspections of containers as requested by the shipping companies using off-duty inspectors.

In our prior report, this account was entitled “Contribution of Overtime Plant Quarantine Inspection.” We stated that this account was used infrequently because the Pest Inspection, Quarantine, and Eradication Fund replaced most of this account’s usefulness and one shipping line depleted its balance prior to our review period.

Producers Settlement Fund
(trust fund)

Administratively established

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$0	\$0	\$0	\$0	\$0
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund meets the criteria of a trust fund and continues to serve the purpose for which it was originally created. Administratively created in 1980, the fund was designed to strengthen and create stability in Hawai‘i’s milk industry by supporting the Milk Control Act. This

fund is used to formulate distribution and adjustment payments to milk processors to equalize the value of market-wide pooled milk for use in the Honolulu and Hawai‘i milk sheds. Although the fund is currently inactive, DOA asserts that the fund should remain open because, although there was only one milk processing plant open during the review period, another plant has since been built by a milk producer and it is uncertain if they will eventually accept and pool milk from other dairies.

**Quality and Price Assurance
(trust account)**

Administratively established

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$126	\$127	\$116	\$104	\$103
Revenues	49	24	6	9	6
Interest	0	0	0	0	0
Expenditures	(48)	(35)	(18)	(10)	(13)
Transfers	0	0	0	0	0
Ending Balance	\$127	\$116	\$104	\$103	\$96
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 1997, the account is a temporary clearing account for federal certification activities. Under a cooperative agreement with the U.S. Department of Agriculture and the Agricultural Marketing Service, this account supports the voluntary fee-for-service inspection and certification of a variety of processed foods, shell eggs, and fresh fruits and vegetables. Revenues are from fees for fruit and vegetable inspections, processed products inspections, and good agricultural practice and handling audits. Expenditures include user-requested certification inspections and assessments.

Seal of Quality Special Fund
(special fund)

Section 148-67, HRS

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$44	\$61	\$67	\$35	\$42
Revenues	19	7	5	8	13
Interest	0	0	0	0	0
Expenditures	(2)	(1)	(37)	(1)	(11)
Transfers	0	0	0	0	0
Ending Balance	\$61	\$67	\$35	\$42	\$44
Encumbrances	\$0	\$18	\$0	\$0	\$0

This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally created. Statutorily created in 2007, the fund supports the Seal of Quality Program, which brands Hawai‘i-grown and Hawai‘i-made premium products with a seal guaranteeing they were produced in the State. Revenues are from application fees, sale of seals, and fines. Expenditures include seals, marketing, and other promotional expenses.

Security Deposits
(trust account)

Administratively established

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$53	\$59	\$91	\$103	\$109
Revenues	6	32	12	6	14
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$59	\$91	\$103	\$109	\$123
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 2004, the account holds security deposits for leases, licenses, and revocable permits. Revenues are from security deposits collected from lessees, licensees, and permittees occupying lands owned by the Agribusiness Development Corporation. These moneys are held until termination of the tenancy and the satisfaction of all tenancy terms and conditions.

**Security Deposits –
Ag Park and Non-Ag
Park
(trust account)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$152	\$156	\$179	\$194	\$196
Revenues	4	23	15	2	24
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$156	\$179	\$194	\$196	\$220
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 2009, the account supports DOA's leasing program for farmers. The account holds security deposits, in lieu of performance bonds, collected from lessees and permit holders until termination of a lease. The moneys are held until the lease terminates or until all lease terms and conditions are met, and the Board of Agriculture authorizes the release of the security deposit.

**Temporary Deposits
(trust account)**

**Administratively
established**

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$45	\$55	\$64	\$68	\$549
Revenues	10	9	7	486*	33
Interest	0	0	0	0	0
Expenditures	0	0	(3)	(5)	(8)
Transfers	0	0	0	0	0
Ending Balance	\$55	\$64	\$68	\$549	\$574
Encumbrances	\$0	\$0	\$0	\$0	\$0

*In FY2017, revenues included a temporary deposit of \$447,808 for an agricultural loan for the Department of Business, Economic Development and Tourism's (DBEDT) community-based economic development revolving loan fund. In FY2019, these funds were transferred to DBEDT.

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created in 1993, the account is a clearing account for funds received by DOA until proper disbursement can be made. Revenues are from temporary deposits including moneys from settlements, private donations and gifts, certificates of title collected from agricultural loan borrowers and

cooperator's shares of emergency flume repairs, donations from animal owners, payments for overpaid salaries which will later be transferred to the Director of Finance, and market development trade show participants fees. Expenditures include temporary deposits being reversed out of the fund, and a credit against a proper expenditure, for expenses including booth fees for trade shows, offsetting the cost of fuel for fieldwork and supplies related to veterinary laboratory activities, the purchase of clinical and animal disease textbooks and journal subscriptions, title guaranties, and payment to the Director of Finance for the collected salary overpayments.

***Temporary Deposits –
Bond for Animal
(trust account)***

***Administratively
established***

Financial Data for Fiscal Years 2014 – 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$8	\$27	\$17	\$11	\$11
Revenues	19	6	0	0	0
Interest	0	0	0	0	0
Expenditures	0	(16)	(6)	0	0
Transfers	0	0	0	0	0
Ending Balance	\$27	\$17	\$11	\$11	\$11
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account meets the criteria of a trust account and continues to serve the purpose for which it was originally created. Administratively created prior to 1968, the account holds permittees' bonds for animals such as monkeys, apes, and baboons that are brought to Hawai'i for circuses, film productions, and other purposes. Revenues are from bonds collected from permittees who obtain short-term permits. Bonds range from \$2,000 to \$3,000 per animal and are returned, without interest, to the permittee upon DOA's verification of the animal's death, its shipment out of state, or its transfer to another permittee with a new bond. Bond amounts are forfeited by permittees upon failure to comply with bond terms and conditions. The bonding requirements do not apply to government organizations such as municipal zoos and nonprofit animal sanctuaries.

***Waiāhole Water System
Revolving Fund
(revolving fund)***

Section 163D-15.5, HRS

Financial Data for Fiscal Years 2014 — 2018 (in thousands)

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$1,544	\$1,695	\$1,847	\$1,902	\$1,648
Revenues	1,331	1,288	1,245	878	1,304
Interest	3	7	12	15	11
Expenditures	(1,183)	(1,143)	(1,202)	(1,147)	(1,142)
Transfers	0	0	0	0	0
Ending Balance	\$1,695	\$1,847	\$1,902	\$1,648	\$1,821
Encumbrances	\$7	\$9	\$11	\$3	\$77

This fund does not meet all the criteria of a revolving fund because the program it supports can be successfully implemented under the general fund appropriation process, but it continues to serve the purpose for which it was created. Statutorily created in 1998, the fund allows the Agribusiness Development Corporation to support the operations of the Waiāhole Water System, ensuring the continuation and expansion of diversified agriculture on O‘ahu and to protect the Pearl Harbor aquifer by serving users in Mililani and Kunia. Revenues are from water fees and interest income received by the Waiāhole Water System. Expenditures include costs associated with the operation and maintenance of the Waiāhole Water System.

Under Section 37-52.3, HRS, an examination of why a program or activity cannot be implemented successfully under the general fund appropriation process must be conducted. Although the fund is self-sustaining, DOA asserts this program can be funded through the general fund appropriation process if the Legislature so desires.

Chapter 3

The Department of Agriculture Did Not Report Non-General Funds As Required by Law

As we reported in our *Study of the Transfer of Non-general Funds to the General Fund*, Report No. 12-04, special, revolving, and other types of non-general funds collectively represent about half of the State's operating budget – moneys that are not subject to the same level of legislative scrutiny as the general fund. Accurate and complete reporting of all funds, as required by law, would greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility. Fund reports are one of the primary means through which the Legislature tracks non-general funds. The reports are used to monitor fund balances and identify excess moneys for possible transfer to the general fund.

Section 37-47, HRS, requires departments to submit to the Legislature an annual report of each non-general fund account including information such as the intended purpose of the fund, current program activities supported by the fund, and financial data. The Director of Finance annually issues a memorandum requesting all departments to complete and submit Form 37-47, *Report on Non-General Fund Information*, to the Department of Budget and Finance for each of their non-general funds. The Department of Budget and Finance compiles a report of all non-general fund accounts and submits it to the Legislature prior to the start of each legislative session.

Section 37-52.5, HRS, requires the Judiciary and any department that administratively establishes a new fund or account to submit a report to the Legislature. The report must be filed within 30 working days of a fund or account's creation and should include a justification for the fund or account and identification of its sources of revenue. In addition, prior to the start of each legislative session, the law also requires each department to submit to the Legislature a listing of all administratively established funds or accounts along with a statement of their revenues, expenditures, encumbrances, and ending balances for each fund or account.

During our review of DOA's non-general funds, we noted non-compliance with statutory requirements to report financial activity and balances, as required by Section 37-47, HRS, as well as fund information for administratively established funds and accounts under Section 37-52.5, HRS.

As shown in Exhibit 3.1, DOA had non-general funds with balances totaling more than \$1 million and administratively created non-general funds with balances totaling more than \$1.4 million that were not reported to the 2018 Legislature as required by Sections 37-47 and 37-52.5, HRS, respectively.

Exhibit 3.1
DOA Non-General Funds and Administratively Created Funds Not Reported to the Legislature

Fund Name	Fund Type	HRS 37-47 (Non- General)	FY2017 Ending Balance (rounded)	HRS 37-52.5 (Admin Created)	FY2017 Ending Balance (rounded)
Agribusiness Development Corporation Land Performance Bond	Trust Account	✓	\$25,500		
Agricultural Loan Reserve Fund	Special			✓	\$1,212,000
Animal Industry Special Fund	Special	✓	0		
Aquaculture Loan Reserve Fund	Special			✓	206,000
Department of Hawaiian Home Lands Entitlement Proceeds	Trust Fund	✓	100		
Hawai'i Department of Agriculture Biocontrol Foreign Exploration Special Fund	Special	✓	9,800		
Office of Hawaiian Affairs Ceded Lands Proceeds	Trust Fund	✓	41,000		
Plant Pest and Disease Control	Trust Account	✓	36,400		
Producer's Settlement Fund	Trust Fund	✓	0	✓	0
Quality and Price Assurance	Trust Account	✓	102,800		
Security Deposits	Trust Account	✓	108,900		
Security Deposits - Ag Park and Non-Ag Park	Trust Account	✓	196,800		
Temporary Deposits	Trust Account	✓	549,400		
Temporary Deposits - Bond for Animal	Trust Account	✓	11,000		
Total			\$1,081,700		\$1,418,000

Source: Office of the Auditor

Office of the Auditor's Comments on the Affected Agency Response

Comments on Agency Response

We transmitted a draft of the review to DOA on October 11, 2018. DOA provided a written response to the draft report on October 17, 2018 (Attachment 1).

DOA generally agreed with our findings and will take appropriate action for the five special funds and two revolving funds that did not meet criteria – specifically, three special funds and two revolving funds should be evaluated for continuance, one special fund should be closed, and one special fund should be reclassified to a revolving fund.

However, in reference to the Agricultural Development and Food Security Fund, DOA pointed out that the language in Act 73, SLH 2010, states that there is a nexus between the tax on petroleum products and programs to support food security. We recognize this language exists in the preamble to Act 73; however, our analysis did not find convincing evidence of such nexus.

DAVID Y. IGE
Governor

DOUGLAS S. CHIN
Lt. Governor



State of Hawaii
DEPARTMENT OF AGRICULTURE
1428 South King Street
Honolulu, Hawaii 96814-2512
Phone: (808) 973-9600 FAX: (808) 973-9613

SCOTT E. ENRIGHT
Chairperson, Board of Agriculture

PHYLLIS SHIMABUKURO-GEISER
Deputy to the Chairperson

October 17, 2018

Leslie H. Kondo
State Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Mr. Kondo:

Thank you for the opportunity to provide comments on the report titled, Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Agriculture. Our comments shall address the seven (7) funds that have been identified as not meeting criteria, and the Non-General and Administratively Created Funds not reported to the Legislature.

Agricultural Development and Food Security Fund

The Agricultural Development and Food Security Fund was created by Act 73 of the 2010 Legislative Session. As stated in our comments provided to a previous audit, in Act 73, the Legislature clearly stated that "producing local food would reduce Hawaii's demand for fossil fuels, keep money in our community, and decrease the State's vulnerability to food-supply disruptions caused by natural disasters or worldwide economic events". The language seems to establish nexus between the tax on petroleum products and programs to support food security. HDOA agrees that general funds could be used to support the programs currently using these funds and would be receptive to discussing a means to incorporate general fund appropriations.

Agricultural Park Special Fund and the Non-Agricultural Lands Special Fund

Regarding the Agricultural Park Special Fund and the Non-Agricultural Lands Special Fund, both funds support the Agricultural Park and the Non-Agricultural Park Lands Programs. These programs could be funded via general funds, but nexus clearly exists between income generated through rental income, appraisal and other fees, and the salaries, equipment rentals, and other related operational and maintenance costs required to effectively operate the Agricultural Park and Non-Agricultural Park Lands Programs.

Leslie H. Kondo, State Auditor
October 17, 2018
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HDOA Biocontrol Foreign Exploration Special Fund

The HDOA Biocontrol Foreign Exploration Special Fund shall be closed and any remaining fund balance shall be transferred back to the Department of Land and Natural Resources' (DLNR), Hawaii Invasive Species Council. The \$2,000 encumbrance in FY2015 was cancelled as the expenses were paid by an alternate fund.

Hawaii Water Infrastructure Special Fund

HDOA acknowledges that the Hawaii Water Infrastructure Special Fund functions more like a revolving fund primarily due to the newness of the fund and the relatively low level of initial funding. The HDOA believes that if the fund is provided additional funding and given time to build up the fund through interest collections, it would be able to pay for expenses and become self-sufficient.

Waiahole Water System Revolving Fund

The Agricultural Development Corporation (ADC) Executive Director acknowledges the findings of the auditors but believes the Waiahole Water System revolving fund is an appropriate financing mechanism as it allows ADC to adjust its' water charges as costs demand, thereby keeping water use costs to the farmers as close to actual cost as possible.

Non-General and Administratively Created Funds

Regarding the Non-General and Administratively Created Funds identified as not reported to the Legislature, the HDOA shall submit reports as required going forward.

HDOA appreciates the work put forward by the Auditor's Office and is grateful for the opportunity to provide a response. Should you have any questions, please contact me at 808-973-9550.

Sincerely,



Scott E. Enright, Chairperson
Board of Agriculture
