

January 18, 2023

VIA EMAIL

The Honorable Ronald D. Kouchi
Senate President
415 South Beretania Street
Hawai'i State Capitol, Room 409
Honolulu, Hawai'i 96813

VIA EMAIL

The Honorable Scott K. Saiki
Speaker, House of Representatives
415 South Beretania Street
Hawai'i State Capitol, Room 431
Honolulu, Hawai'i 96813

Re: *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Public Safety, Report No. 23-02*

Dear President Kouchi and Speaker Saiki:

Please find attached a copy of Report No. 23-02, *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Public Safety*, along with a copy of the Auditor's Summary.

This report presents a five-year summary for each special fund, revolving fund, trust fund, and trust account maintained by the Department of Public Safety, evaluates the original intent and purpose of each fund and account, and determines the degree to which each fund and account achieves its stated and claimed purpose.

The report is accessible through the Office of the Auditor's website at:
<https://files.hawaii.gov/auditor/Reports/2023/23-02.pdf>.

The summary is also accessible through the Office of the Auditor's website at:
<https://files.hawaii.gov/auditor/Overviews/2023/23-02AuditorSummary.pdf>.

If you have any questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo
State Auditor

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Attachments

cc/attach: Members of the Senate
Members of the House of Representatives
Carol Taniguchi, Senate Chief Clerk
Brian Takeshita, House Chief Clerk

Auditor's Summary

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Public Safety

Report No. 23-02

Three special funds and two trust accounts did not meet criteria

OUR REVIEW of five special funds, three revolving funds, five trust funds, and four trust accounts of the Department of Public Safety (PSD) found three special funds and two trust accounts did not meet criteria and should be closed or reclassified.

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 PSD's revolving funds, trust funds, and trust accounts. It is our second review of the special funds held by PSD since Act 130, Session Laws of Hawai'i 2013, amended Section 23-12, HRS, to require review of special funds along with revolving funds and trust 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 PSD did not file statutorily required reports for non-general funds totaling approximately \$2.96 million and administratively created non-general funds totaling approximately \$6.55 million. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these 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.

Agency response

PSD AGREED with our conclusion about its reporting shortfall and stated that it has taken corrective action. PSD disagreed with our determination that the Administrator/Inmate Activity Account and Law Enforcement Services – Airport special fund did not meet the criteria for each respective type of fund and stated that it “prefers” to maintain the current classifications of both. PSD offered no analysis or other information to support the current classification of either the account or the fund. We maintain that, while both continue to serve the purposes for which they were created, the Administrator/Inmate Activity Account operates as a special fund and should be reclassified as such; similarly, the Law Enforcement Services – Airport special fund should be reclassified as a revolving fund.

Additionally, PSD offered additional comments regarding a transfer between the Correctional Industries Revolving Fund and the Federal Reimbursement Maximization Special Fund. We responded to PSD’s comments and have included the department’s written comments to the draft report in its entirety.

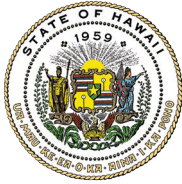
Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Public Safety

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

Report No. 23-02
January 2023



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:
<https://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 Public Safety.

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 include trust accounts as part of our review. This is our sixth review of the revolving funds, trust funds, and trust accounts of the Department of Public Safety. It is our second review of its special funds since Section 23-12, HRS, was amended by Act 130, Session Laws of Hawai‘i 2013, to include reviews of special funds.

We wish to express our appreciation for the cooperation and assistance extended to us by the Department of Public Safety.

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 Department of Public Safety (PSD). 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. 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 funded outside of the General Fund appropriation process and are therefore generally subject to less legislative scrutiny than the State’s General Fund. For each fund and account, our review included:

1. An evaluation of the original intent and purpose of the fund or account, both as expressed by the Legislature and as understood by the expending agency;
2. The degree to which the fund or account achieves its stated and claimed purposes;
3. An evaluation of the fund or account’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 or account balance at the beginning of each fiscal year, total deposits and withdrawals, amount of interest earned, total expenditures made from the fund or account, and the ending balance for each fiscal year.

This is our sixth review of PSD’s revolving funds, trust funds, and trust accounts.¹ It is our second review of PSD’s special funds, since Act 130, Session Laws of Hawai‘i (SLH) 2013, amended Section 23-12, HRS, to require review of special funds along with revolving funds and trust funds. We last examined these funds and accounts in 2017.

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 the assets held 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 in this report 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 the degree to which each fund 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 PSD.
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 (FY2018 – FY2022) unaudited financial summary for each fund and account of PSD.

Scope and Methodology

We reviewed all special funds, revolving funds, trust funds, and trust accounts directly administered by the Department of Public Safety during the five-year period under review (FY2018 – FY2022). 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, 2017 to June 30, 2022), 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 FY2017 reported in our last review and opening balances reported for FY2018. We did not audit the department's financial data, which we provide 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 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. 17-11, *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Public Safety*.

Our review was conducted from August 2022 to December 2022. Recommendations were made where applicable.

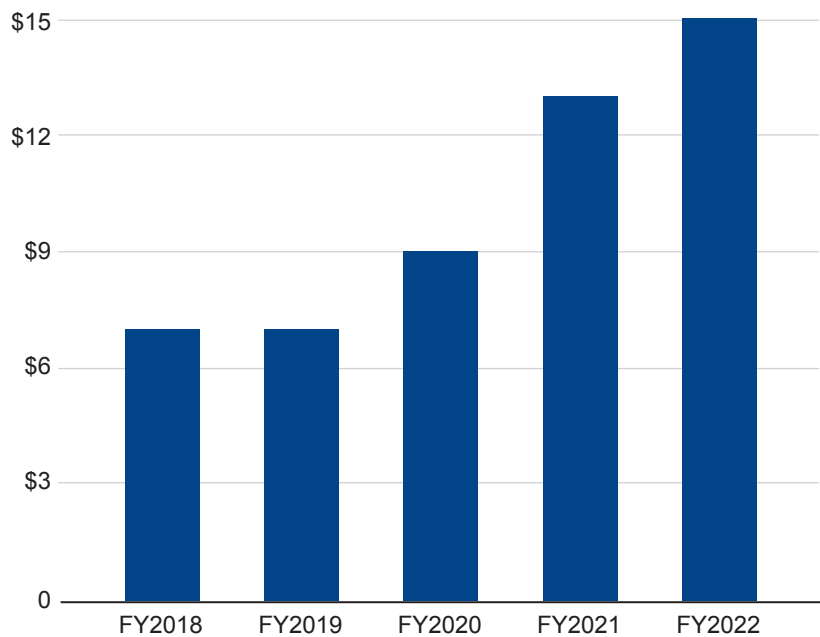
Chapter 2

Department of Public Safety

This chapter presents the results of our review of five special funds, three revolving funds, five trust funds, and four trust accounts. Total fund fiscal year-end balances for PSD amounted to at least \$6.7 million per year during the period reviewed.

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

Exhibit 2.1
Cash Balances for the Department of Public Safety’s
Non-General Funds FY2018 – FY2022 (in millions)



Source: Office of the Auditor

In FY2022, the special funds, revolving funds, trust funds, and trust accounts collected approximately \$24.6 million and spent or transferred approximately \$23.1 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 FY2022.

Exhibit 2.2
Fund and Account Totals by Type, FY2022

Fund Type	Revenue and Interest	Expenses and Transfers	FY2022 End Cash Balance
Special Funds	\$10,212,000	\$9,828,000	\$4,402,000
Revolving Funds	9,126,000	6,849,000	6,535,000
Trust Funds/ Trust Accounts	5,295,000	6,397,000	3,958,000
Total	\$24,633,000	\$23,074,000	\$14,895,000

Source: Office of the Auditor

For each fund and account, we present a five-year financial summary, the purpose of the fund, and conclusions about its use and whether it meets the definition of the type of fund or account. This review does not include an assessment of the effectiveness of the program or its management. Funds are presented in alphabetical order.

Exhibit 2.3 presents PSD funds that did not meet criteria for continuance and should be closed or reclassified.

**Exhibit 2.3
Fund(s) Not Meeting Criteria**

Fund Name	Fund Type	FY2022 Ending Balance	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
Administrator/Inmate Activity Account	Trust Account	\$123,218					✓
Crime Victim Compensation Special Fund	Special Fund	419,750				✓	
Law Enforcement Services – Airport	Special Fund	2,589,020					✓
Maui Community Correctional Center	Special Fund	603					✓
Narcotics Enforcement Agency Trust Account	Trust Account	32,507					✓
Total		\$3,165,098					

Source: Office of the Auditor

Administrator/Inmate Activity Account

Financial Data for Fiscal Years 2018 – 2022 (in thousands)					
	FY2018	FY2019	FY2020	FY2021	FY2022
Beginning Balance	\$75	\$144	\$132	\$151	\$133
Revenues	39	30	65	33	55
Interest	0	0	0	0	0
Expenditures	(44)	(42)	(46)	(51)	(65)
Transfers	74*	0	0	0	0
Ending Balance	\$144	\$132	\$151	\$133	\$123
Encumbrances	\$11	\$0	\$6	\$20	\$15

*Transfer from the Revolving Funds for Correctional Facility Stores of \$74,134 upon fund closure.

Fund Summary	
Account Type	Trust account
How was the account created?	Administratively established (1989)
Why was it created?	The account is used to provide a mechanism to deposit funds that can be used for the benefit of all inmates in correctional institutions.
Account meets criteria?	This account does <i>not</i> meet all the criteria of a trust account because it functions more like a special fund. Although the fund continues to serve the purpose for which it was originally established, <i>the account should be reclassified as a special fund.</i>
Performance standards	No, the account does not have performance standards.
Revenues	Revenues are 2.5% of the net annual profit from inmate stores in correctional institutions.
Expenditures	Expenditures include goods and services for the inmate population such as food supplies for special inmate activities, recreational equipment, musical instruments, and other equipment.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	No.
Additional information	As profits from the inmate stores have historically been deposited to this account, upon closure of the Revolving Funds for Correctional Facility Stores, the remaining balance was transferred to this account.

**Alliance for Higher
Education in Prison**

Financial Data for Fiscal Years 2021 – 2022 (in thousands)

	FY2021	FY2022
Beginning Balance	\$0	\$50
Revenues	50	0
Interest	0	0
Expenditures	0	(50)
Transfers	0	0
Ending Balance	\$50	\$0
Encumbrances	\$0	\$0

Fund Summary

Account Type Trust fund

How was the fund created? Administratively established (2020)

Why was it created? The fund was used to support a grant of \$50,000 for higher education learning for incarcerated individuals under the care and custody of the department.

Fund meets criteria? The fund was closed in FY2022 after all funds were expended.

Automated Victim Information and Notification System Special Fund

Financial Data for Fiscal Years 2018 – 2022 (in thousands)

	FY2018	FY2019	FY2020	FY2021	FY2022
Beginning Balance	\$727	\$897	\$1,046	\$1,326	\$925
Revenues	250	258	450	472	498
Interest	4	6	32	8	5
Expenditures	(84)	(115)	(202)	(881)	(253)
Transfers	0	0	0	0	0
Ending Balance	\$897	\$1,046	\$1,326	\$925	\$1,175
Encumbrances	\$4	\$13	\$7	\$85	\$13

Fund Summary

Account Type	Special fund
How was the fund created?	Section 353-136, HRS (SLH 2012)
Why was it created?	The fund is used to support the automated victim information and notification system, which notifies registered victims or concerned members of the community through telephone, text message, or e-mail when a specified offender in the custody of the department is transferred or assigned to another facility; transferred to the custody of another agency outside the State; released on temporary leave from the facility assigned to or for other related reasons; discharged at the end of sentence; or placed on escape status (leave without authorization).
Fund meets criteria?	This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally established.
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are from a 4% surcharge on any item purchased by an in-state or out-of-state inmate from a correctional facility commissary, and commissions from telephone service agreements executed by the department for telephone services for inmates.
Expenditures	Expenditures include development and maintenance of the notification system, its daily operating expenses, and the salaries and benefits of positions managing the system.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	Not applicable, the fund was statutorily established.

**Controlled Substance
Registration Revolving
Fund**

Financial Data for Fiscal Years 2018 – 2022 (in thousands)

	FY2018	FY2019	FY2020	FY2021	FY2022
Beginning Balance	\$42	\$80	\$280	\$504	\$658
Revenues	528	874	861	880	890
Interest	0	0	8	3	2
Expenditures	(490)	(674)	(645)	(715)	(570)
Transfers	0		0	(14)*	0
Ending Balance	\$80	\$280	\$504	\$658	\$980
Encumbrances	\$5	\$93	\$13	\$141	\$117

*Transfer to Collective Bargaining Special Fund pursuant to Executive Memorandum No. 20-09.

Fund Summary

Account Type	Revolving fund
How was the fund created?	Section 329-59, HRS (SLH 1996)
Why was it created?	The fund was established for the purpose of offsetting the cost of the electronic prescription accountability system; funding the State's forensic drug laboratory; the registration and control of the manufacture, distribution, prescription, and dispensation of controlled substances and regulated chemicals; and funding positions authorized by the Legislature.
Fund meets criteria?	This fund meets the criteria of a revolving fund and continues to serve the purpose for which it was originally established.
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are from registration fees to obtain a controlled substance license.
Expenditures	Expenditures include the maintenance and updating of the Hawaii Prescription Drug Monitoring Program database; forensic drug laboratory maintenance and equipment costs; and front office and investigative staff positions approved by the Legislature.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	Not applicable, the fund was statutorily established.

**Correctional Industries
Revolving Fund**

Financial Data for Fiscal Years 2018 – 2022 (in thousands)

	FY2018	FY2019	FY2020	FY2021	FY2022
Beginning Balance	\$383	\$379	\$134	\$2,032	\$3,600
Revenues	4,954	4,008	5,766	6,792	8,221
Interest	1	1	7	8	14
Expenditures	(4,959)	(4,254)	(3,875)	(5,172)	(6,229)
Transfers	0	0	0	(60)*	(50)**
Ending Balance	\$379	\$134	\$2,032	\$3,600	\$5,556
Encumbrances	\$0	\$0	\$0	\$623	\$500

*Transfer in FY2021 of \$60,216 to Collective Bargaining Special Fund pursuant to Executive Memorandum No. 20-09.

**Transfer in FY2022 of \$50,000 to the Federal Reimbursement Maximization Special Fund to fund expenditures for FY2022.

Fund Summary

Account Type	Revolving fund
How was the fund created?	Section 354D-10, HRS (SLH 1990)
Why was it created?	The fund is used to receive proceeds of sales or disposition of goods produced and services provided under Hawai'i Correctional Industries Programs to be used for costs of goods sold, purchase or lease of supplies and equipment, and the salaries of personnel necessary to administer the enterprises, including paying inmates for work assignments.
Fund meets criteria?	This fund meets the criteria of a revolving fund and continues to serve the purpose for which it was originally established.
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are from fees charged to customers for the delivery of goods and services produced by inmates. Revenue generating programs include a print shop, a sewing shop for Adult Correctional Officer and Sheriff uniforms and face masks during the pandemic, canteen services for in-facility inmates, deep cleaning and sanitation services provided by Hawai'i Correctional Industries to PSD, labor services for special projects, production and installation of furniture, and production of various other products to state agencies.
Expenditures	Expenditures include personnel costs, including State employees and inmates, and costs of goods sold, such as materials, supplies, and equipment needed to provide the goods and services to customers.
Reported pursuant to Section 37-47, HRS	Yes.

**Reported pursuant to
Section 37-52.5, HRS**

Not applicable, the fund was statutorily established.

Additional information

The FY2022 transfer of \$50,000 to the Federal Reimbursement Maximization Special Fund does not appear appropriate. Revolving funds, as defined under Section 37-62, HRS, are used to pay the cost of goods or services, which are replenished through charges made for those goods or services. A revolving fund should not be used to support other funds.

**Crime Victim
Compensation Special
Fund**

Financial Data for Fiscal Years 2018 – 2022 (in thousands)

	FY2018	FY2019	FY2020	FY2021	FY2022
Beginning Balance	\$1,207	\$1,211	\$762	\$293	\$151
Revenues	764	752	654	594	1,128
Interest	16	21	5	2	1
Expenditures	(776)	(1,222)	(1,128)	(721)	(860)
Transfers	0	0	0	(17)*	0
Ending Balance	\$1,211	\$762	\$293	\$151	\$420
Encumbrances	\$0	\$9	\$0	\$0	\$0

*Transfer to Collective Bargaining Special Fund of \$17,251 pursuant to Executive Memorandum No. 20-09.

Fund Summary

Account Type	Special fund
How was the fund created?	Section 351-62.5, HRS (SLH 1998)
Why was it created?	The fund is used to hold compensation fees and generate revenue to fund the operations of the Crime Victim Compensation Commission (Commission). The Commission provides financial assistance to victims of physical, violent crimes for their out-of-pocket medical expenses, including therapy; lost earnings; and funeral and burial expenses for deceased victims.
Fund meets criteria?	This fund does <i>not</i> meet the criteria of a special fund because it is not financially self-sustaining; however, it continues to serve the purpose for which it was originally established.
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are from the Crime Victim Compensation Fee assessed by courts against criminal offenders, offender restitution ordered by a court as reimbursement for compensation awarded, a percentage of Hawai'i inmate wages for offenders convicted of violent crimes, and interest income.
Expenditures	Expenditures include compensation awards made to and on behalf of victims, as well as the operational costs of the Crime Victim Compensation Commission.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	Not applicable, the fund was statutorily established.

Additional information

In 2020, the Commission recognized that the revenue generated from compensation fees and restitution were being affected by the pandemic and collections were not going to be enough to sustain its operations. In FY2022, the fund received a one-time General Fund infusion to keep the Commission operational pursuant to Act 88, SLH 2021. The department noted that, unless the Judiciary substantially increases its ordering and collection of compensation fees, the fund will not be able to be fiscally self-sustaining.

**Drug Law Enforcement
Equipment
Procurement Trust
Account**

Financial Data for Fiscal Years 2018 – 2021 (in thousands)				
	FY2018	FY2019	FY2020	FY2021
Beginning Balance	\$8	\$8	\$8	\$8
Revenues	0	0	0	0
Interest	0	0	0	0
Expenditures	0	0	0	(8)
Transfers	0	0	0	0
Ending Balance	\$8	\$8	\$8	\$0
Encumbrances	\$0	\$0	\$0	\$0

Fund Summary	
Account Type	Trust account
How was the account created?	Administratively established (1997)
Why was it created?	The account was used as a clearing account to temporarily hold funds received from the State and other agencies to purchase law enforcement equipment suitable for counterdrug activities from the federal government. Funds were disbursed upon receipt of purchased equipment.
Account meets criteria?	This account was closed in FY2021 and the remaining balance was transferred to the General Fund pursuant to Act 9, First Special Session 2021.

**Federal
Reimbursement
Maximization Special
Fund**

Financial Data for Fiscal Years 2018 – 2022 (in thousands)

	FY2018	FY2019	FY2020	FY2021	FY2022
Beginning Balance	\$1,000	\$556	\$509	\$103	\$266
Revenues	1	436	500	285	29
Interest	0	0	0	0	0
Expenditures	(445)	(483)	(906)	(122)	(127)
Transfers	0	0	0	0	50*
Ending Balance	\$556	\$509	\$103	\$266	\$218
Encumbrances	\$192	\$245	\$0	\$288	\$0

*Transfer in FY2022 of \$50,000 from the Correctional Industries Revolving Fund to fund expenditures for FY2022.

Fund Summary

Account Type	Special fund
How was the fund created?	Section 353C-7, HRS (SLH 2001)
Why was it created?	The fund was established to receive federal moneys from the State Criminal Alien Assistance Program which are to be used for correctional purposes only.
Fund meets criteria?	The fund meets the definition of a special fund and continues to serve the purpose for which it was originally established.
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are proceeds from the State Criminal Alien Assistance Program, a federal program that provides moneys to states that incur costs from incarcerating undocumented criminal aliens.
Expenditures	Expenditures include costs to meet the state match requirement for various federal grants; training for corrections officers; facility or program evaluations; rent or purchase of vehicles to transport inmates; pre-release and reentry programs; costs to improve technology; and recruitment and retention of corrections workforce.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	Not applicable, the fund was statutorily established.

The FY2022 transfer of \$50,000 from the Correctional Industries Revolving Fund does not appear appropriate. As noted above, the Legislature created this fund specifically to receive federal moneys from the State Criminal Alien Assistance Program. The Correctional Industries Revolving Fund receives revenues from fees charged to customers for the delivery of goods and services produced by inmates, not from the State Criminal Alien Assistance Program.

According to the department, the transfer was necessary to fund department-related expenditures; that explanation, however, seems to suggest the department is misusing the fund. Because the fund does not support a specific program and its expenditures are discretionary “for correctional purposes,” the department should never expend more moneys than the fund balance, i.e., there should never be a need to transfer moneys from another fund to cover expenditures. Moreover, we note that it appears the fund did have sufficient moneys to cover expenditures without the infusion from the Correctional Industries Revolving Fund.

Additional information

Rather, it appears the department used the fund to supplement its legislatively approved appropriation from the State General Fund for discretionary spending without legislative oversight or approval. The Correctional Industries Revolving Fund from which the \$50,000 was transferred pays for the costs of goods sold by the Correctional Industries Program and to pay inmates for their work. That fund cannot be used for any other, unrelated correctional-related expenditures. However, according to the department, the funds transferred to the Federal Reimbursement Maximization Special Fund were reimbursement for the purchase of a vehicle for Hawai'i Correctional Industries, an expenditure that would not be consistent using the Correctional Industries Revolving Fund.

**Undistributed Tax
Collections Accounts**

Financial Data for Fiscal Years 2018 – 2022 (in thousands)

	FY2018	FY2019	FY2020	FY2021	FY2022
Beginning Balance	\$8	\$7	\$7	\$7	\$8
Revenues	0	0	0	1	0
Interest	0	0	0	0	0
Expenditures	(1)	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$7	\$7	\$7	\$8	\$8
Encumbrances	\$0	\$0	\$0	\$0	\$0

Fund Summary

Account Type	Trust fund
How was the fund created?	Administratively established (1995)
Why was it created?	The fund is used to deposit any moneys gifted to the Department of Public Safety.
Fund meets criteria?	This fund meets the criteria of a trust fund and continues to serve the purpose for which it was originally established.
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are from moneys given, bequeathed, devised, or in any other manner provided to the Department of Public Safety.
Expenditures	The funds are expended in accordance with the law and any terms and conditions that may pertain to the gift, subject to the approval of the Director of Public Safety.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	No.

Laura and John Arnold Foundation

Financial Data for Fiscal Years 2018 – 2021 (in thousands)

	FY2018	FY2019	FY2020	FY2021
Beginning Balance	\$0	\$0	\$0	\$0
Revenues	0	0	0	0
Interest	0	0	0	0
Expenditures	0	0	0	0
Transfers	0	0	0	0
Ending Balance	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0

Fund Summary

Account Type	Trust fund
How was the fund created?	Administratively established (2013)
Why was it created?	The fund was established to support a grant to conduct a two-year research pilot project on the applicability of Hawai'i's Opportunity Probation with Enforcement probation supervision criteria on a pretrial population.
Fund meets criteria?	This fund was closed in FY2021, and the remaining balance was transferred to the General Fund.
Additional information	Balances were less than \$300 for the period FY2018 through FY2021, under the rounding factor of one thousand dollars; therefore, it appears there is no financial data. Report No. 17-11 stated the fund was closed in FY2017 and the remaining balance returned to the Laura and John Arnold Foundation; however, the fund subsequently received interest income and was ultimately closed in FY2021.

**Law Enforcement
Services – Airport**

Financial Data for Fiscal Years 2018 – 2022 (in thousands)

	FY2018	FY2019	FY2020	FY2021	FY2022
Beginning Balance	\$205	\$315	\$446	\$1,256	\$2,589
Revenues	6,572	7,076	8,582	9,947	8,547
Interest	0	0	0	0	0
Expenditures	(6,462)	(6,945)	(7,772)	(8,614)	(8,547)
Transfers	0	0	0	0	0
Ending Balance	\$315	\$446	\$1,256	\$2,589	\$2,589
Encumbrances	\$114	\$53	\$248	\$264	\$165

Fund Summary

Account Type	Special fund
How was the fund created?	Administratively established (2001)
Why was it created?	The fund is used to reimburse the department for services provided by the Sheriff's Division to the Department of Transportation, Airports Division. Services include guarding the Daniel K. Inouye International Airport; preserving peace and protecting the public; enforcing state laws, rules, and regulations for the prevention and control of crime; enforcing the Uniform Controlled Substances Act and other substance-related regulations; and serving process in civil and criminal proceedings.
Fund meets criteria?	This fund does <i>not</i> meet all the criteria of a special fund because it functions more like a revolving fund. Although the fund continues to serve the purpose for which it was originally established, <i>the fund should be reclassified as a revolving fund.</i>
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are reimbursements from the Department of Transportation, Airports Division for services provided by the department's Sheriff's Division.
Expenditures	Expenditures include personnel costs, office and other supplies, postage, freight, repair and maintenance, telephone, mileage, machinery and equipment, transportation, and public assistance relating to services provided to the Airports Division.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	No.

**Maui Community
Correctional Center**

Financial Data for Fiscal Years 2018 – 2022 (in thousands)					
	FY2018	FY2019	FY2020	FY2021	FY2022
Beginning Balance	\$266	\$237	\$231	\$204	\$88
Revenues	88	115	54	0	4
Interest	0	0	0	0	0
Expenditures	(117)	(121)	(81)	(116)	(91)
Transfers	0	0	0	0	0
Ending Balance	\$237	\$231	\$204	\$88	\$1
Encumbrances	\$12	\$9	\$15	\$4	\$0

Fund Summary	
Account Type	Special fund
How was the fund created?	Administratively established (1993)
Why was it created?	The fund is used to receive reimbursement from a County of Maui grant to pay for expenses incurred by the Maui Community Correctional Center (MCCC) Inmate Workline Program.
Fund meets criteria?	This fund does <i>not</i> meet all the criteria of a special fund because it functions more like a revolving fund, but continues to serve the purpose for which it was originally established. The department noted it intends to request to close the fund during the next legislative session. If the fund remains open, <i>it should be reclassified as a revolving fund.</i>
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are from a County of Maui reimbursement grant awarded to the MCCC.
Expenditures	Expenditures include costs incurred by the MCCC inmate workline in areas of light construction such as supplies, equipment, inmate compensation, meals, vehicle repair, vehicle equipment and fuel, and clothing for the inmates.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	No.

**Narcotics Enforcement
Agency Trust Account**

Financial Data for Fiscal Years 2018 – 2022 (in thousands)

	FY2018	FY2019	FY2020	FY2021	FY2022
Beginning Balance	\$1,335	\$1,038	\$1,230	\$1,326	\$1,338
Revenues	4	237	83	8	29
Interest	7	11	42	7	2
Expenditures	(308)	(56)	(29)	(3)	(1,336)
Transfers	0	0	0	0	0
Ending Balance	\$1,038	\$1,230	\$1,326	\$1,338	\$33
Encumbrances	\$18	\$27	\$5	\$277	\$0

Fund Summary

Account Type	Trust account
How was the account created?	Administratively established (1991)
Why was it created?	The account is used to receive asset forfeiture proceeds derived from criminal activities to be used for narcotics enforcement activities.
Account meets criteria?	This account does not meet all the criteria of a trust account because it is not a separate holding or clearing account. It functions more like a special fund because the funds are set aside for a specific purpose. Although the account continues to serve the purpose for which it was originally established, the account should be reclassified as a special fund.
Performance standards	No, the account does not have performance standards.
Revenues	Revenues are from seized criminal assets discovered during criminal investigations.
Expenditures	Expenditures include training, equipment purchases, and operational supplies that enhance narcotics law enforcement operations. Funds may also be used to support future criminal investigations and law enforcement activities.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	No.

**Prisoners' Trust
Account (Not in State
Treasury)****Financial Data for Fiscal Years 2018 – 2022 (in thousands)**

	FY2018	FY2019	FY2020	FY2021	FY2022
Beginning Balance	\$1,265	\$1,348	\$1,150	\$1,416	\$2,760
Revenues	5,720	5,625	5,477	5,778	4,786
Interest	0	0	0	0	0
Expenditures	(5,637)	(5,823)	(5,211)	(4,434)	(4,666)
Transfers*	0	0	0	0	0
Ending Balance	\$1,348	\$1,150	\$1,416	\$2,760	\$2,880
Encumbrances	\$0	\$0	\$0	\$0	\$0

Fund Summary

Account Type	Trust fund
How was the fund created?	Administratively established (1989)
Why was it created?	The fund is used to deposit moneys earned by a committed person, moneys given by family, and other authorized sources to be used by the committed person for approved purchases during incarceration. The department maintains an individual ledger account for each committed person and issues statements showing credits and debits.
Fund meets criteria?	This fund meets the criteria of a trust fund and continues to serve the purpose for which it was originally established.
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are from deposits made by individual inmates into the account.
Expenditures	Expenditures include withdrawals from the accounts by the committed person for approved expenses and purchases during incarceration.
Reported pursuant to Section 37-47, HRS	No.
Reported pursuant to Section 37-52.5, HRS	No.

**Revolving Funds for
Correctional Facility
Stores**

Financial Data for Fiscal Year 2018 (in thousands)

	FY2018
Beginning Balance	\$74
Revenues	0
Interest	0
Expenditures	(74)
Transfers	0
Ending Balance	\$0
Encumbrances	\$0

Fund Summary

Account Type	Revolving fund
How was the fund created?	Administratively established (1989)
Why was it created?	The fund was used by correctional facility stores to purchase items to be resold to inmates. However, the department discontinued the use of this fund and inmate stores are now operated by Hawai'i Correctional Industries.
Fund meets criteria?	This fund was closed in FY2018, and the remaining balance was transferred to the Administrator/Inmate Activity Account pursuant to Act 3, SLH 2018, as recommended by the Auditor in Report No. 17-11.

**Temporary Deposits
– Payroll Assignment
Account**

Financial Data for Fiscal Years 2018 – 2022 (in thousands)

	FY2018	FY2019	FY2020	FY2021	FY2022
Beginning Balance	\$425	\$310	\$206	\$88	\$78
Revenues	17	17	3	5	19
Interest	0	0	0	0	0
Expenditures	(132)	(121)	(121)	(15)	(16)
Transfers	0	0	0	0	0
Ending Balance	\$310	\$206	\$88	\$78	\$81
Encumbrances	\$0	\$0	\$0	\$0	\$0

Fund Summary

Account Type	Trust account
How was the account created?	Administratively established (1994)
Why was it created?	The account is used as a holding account to collect payroll overpayments made to individuals on leave without pay or no longer employed by the department.
Account meets criteria?	This account meets the criteria of a trust account and continues to serve the purpose for which it was originally established.
Performance standards	No, the account does not have performance standards.
Revenues	Revenues are from salary overpayments recovered from individuals on leave without pay or no longer employed by the department.
Expenditures	Expenditures include transfers to the General Fund after salary overpayments are recovered and reconciled.
Reported pursuant to Section 37-47, HRS	No.
Reported pursuant to Section 37-52.5, HRS	No.

**Victim Restitution Trust
Fund**

Financial Data for Fiscal Years 2018 – 2022 (in thousands)

	FY2018	FY2019	FY2020	FY2021	FY2022
Beginning Balance	\$322	\$492	\$616	\$693	\$693
Revenues	568	504	501	374	402
Interest	2	3	16	3	3
Expenditures	(400)	(383)	(440)	(377)	(264)
Transfers	0	0	0	0	0
Ending Balance	\$492	\$616	\$693	\$693	\$834
Encumbrances	\$0	\$0	\$0	\$0	\$0

Fund Summary

Account Type	Trust fund
How was the fund created?	Administratively established (2003)
Why was it created?	The fund is used to collect court-ordered restitution from inmates and parolees for crime victims.
Fund meets criteria?	This fund meets the criteria of a trust fund and continues to serve the purpose for which it was originally established.
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are from court-ordered restitution and compensation fees from inmates and parolees.
Expenditures	Expenditures include disbursement of court-ordered restitution and court fees to victims, agencies, and other entities who have suffered financial loss as a result of a crime as directed by the court order.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	No.

Chapter 3

Observations on Reporting and Accounting for Funds

Special, revolving, and other types of non-general funds 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.

Non-General Funds Were Not Reported as Required by Law

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 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. This report is separate from the non-general fund report required under Section 37-47, HRS.

During our review, we noted noncompliance 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, PSD had administratively created non-general funds with balances totaling approximately \$6.55 million that were not reported to the Legislature as required by Section 37-52.5, HRS, of which approximately \$2.96 million were also not reported to the Legislature as required by Section 37-47, HRS.

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

Fund Name	Fund Type	HRS 37-47 (Non- General)	FY2022 Ending Balance (rounded)	HRS 37-52.5 (Admin Created)	FY2022 Ending Balance (rounded)
Administrator/Inmate Activity Account	Trust Account			✓	\$123,000
Gifts to the Department of Public Safety	Trust Fund			✓	8,000
Law Enforcement Services – Airport	Special Fund			✓	2,589,000
Maui Community Correctional Center	Special Fund			✓	1,000
Narcotics Enforcement Agency Trust Account	Trust Account			✓	33,000
Prisoners' Trust Account	Trust Account	✓	\$2,880,000	✓	2,880,000
Temporary Deposits – Payroll Assignment Account	Trust Account	✓	81,000	✓	81,000
Victim Restitution Trust Fund	Trust Fund			✓	834,000
Total			\$2,961,000		\$6,549,000

Source: Office of the Auditor

New Reporting Requirements

Section 37-48, HRS, enacted by the Legislature through Act 87 in 2021, requires departments to submit to the Legislature an annual program measures report of each non-general fund account, including information such as program objectives, program activities, metrics for target population, and metrics for assessing effectiveness over the ensuing six fiscal years. The report must be filed no later than October 1 annually. As the first such required report is due after our review period, we did not assess compliance with reporting required by Section 37-48, HRS.

Section 37-49, HRS, also enacted by the Legislature through Act 87 in 2021, requires departments to submit to the Legislature an annual cost element report of each non-general fund account, including information such as budget details by cost element and non-general fund names and account codes for each item or object code. The report must be filed no later than October 1 annually. As the first such required report is due after our review period, we did not assess compliance with reporting required by Section 37-49, HRS.

Office of the Auditor's Comments on the Department of Public Safety's Response

Comments on Agency Response

WE TRANSMITTED a draft of this review of PSD's Special Funds, Revolving Funds, Trust Funds, and Trust Accounts to the department on December 19, 2022. The department offered written comments to the draft report, which are included in their entirety as Attachment 1. We address PSD's comments below.

PSD first agreed that it had not reported financial activity and balances as required by Section 37-47, HRS, or information about its administratively established funds and accounts as required by Section 37-52.5, HRS. PSD stated that it has taken corrective action and that it would be submitting all reports required by both Sections 37-47 and 37-52.5, HRS, to the Legislature. PSD also represented that the funds missing from its 2022 Non-General Fund Report will be added to the 2023 report.

We reported that a trust account (Administrator/Inmate Activity Account) and a special fund (Law Enforcement Services – Airport) did not meet the criteria of a trust account and a special fund, respectively. We recommended that the Administrator/Inmate Activity Account be reclassified as a special fund and the Law Enforcement Services – Airport special fund be reclassified as a revolving fund.

PSD appears to disagree with our determination that the above funds did not meet the criteria for each respective type of fund, stating that it “prefers” to maintain the current designations of both. The department notes that, in our last review of its special funds, revolving funds, trust funds, and trust accounts, we did not recommend that either be reclassified. While we acknowledge that our prior report did not conclude that the Administrator/Inmate Activity Account did not meet the criteria of a trust account or that the Law Enforcement Services – Airport special fund did not meet the criteria of a special fund, our analysis in 2017 was flawed.

The Legislature established criteria for special funds and revolving funds and directed that the criteria be met for those funds to be continued. *See* Sections 37-52.3 and 37-52.4, HRS. For the reasons explained in the report, we determined that the funds do not meet the criteria for their respective fund types. For that reason, PSD's

“preference” that the funds maintain their current designations does not align with the legislative mandate, and we continue to maintain that PSD should reclassify (1) the Administrator/Inmate Activity Account to be a special fund; and (2) the Law Enforcement Services – Airport to be a revolving fund.

Lastly, with respect to the transfer of \$50,000 from the Correctional Industries Revolving Fund to the Federal Reimbursement Maximization Special Fund, PSD said it will better “document actions related to these two funds to ensure there is no appearance of inappropriate use.” According to PSD, the transfer was to reimburse the Federal Reimbursement Maximization Special Fund for expenses incurred in purchasing a vehicle for Correctional Industries to use to transport inmates. PSD’s response, however, reflects another serious misunderstanding of the purpose of funds and accounts that hold moneys outside of the State’s General Fund. These funds and accounts are created for a specific, defined purpose, and moneys in those funds and accounts can be used only for that purpose. Moreover, special funds and revolving funds are intended to be self-sustaining, meaning that the revenues must be sufficient to cover the expenditures without financial support from the General Fund or other sources.

With respect to the transfer from the Correctional Industries Revolving Fund to the Federal Reimbursement Maximization Special Fund, it is not a matter of better documentation as the department seems to believe. It is *inappropriate* for PSD to transfer moneys from the Correctional Industries Revolving Fund to the Federal Reimbursement Maximization Special Fund. As described on page 19 of the report, the Federal Reimbursement Maximization Special Fund was created by the Legislature to receive the federal reimbursements received by the department relating to the State Criminal Alien Assistance Program. *See* Section 353C-7, HRS. Those moneys, i.e., the federal reimbursements, are the sole source of revenues for the fund.

Similarly, the statutory provision that established the Correctional Industries Revolving Fund described the allowable uses of the fund. Specifically, the moneys held in the fund can be used for “the purchase or lease of supplies, equipment, and machinery; the construction, leasing, or renovation of buildings used to carry out the purposes of this chapter; the salaries of personnel necessary to administer the enterprises established in accordance with this chapter; payment of inmates for work assignments; the reimbursement of incarceration costs of the inmates related to the inmates’ participating in correctional industries; and other necessary expenses.” Section 354D-10, HRS. While we offer no opinion

as to whether the allowable uses of the Correctional Industries Revolving Fund include purchasing a vehicle, reimbursing the Federal Reimbursement Maximization Special Fund or any other fund is not one of the permitted uses under the statute. And, based on PSD's explanation, the transfer of moneys raises concerns that the department may have used the Federal Reimbursement Maximization Special Fund to circumvent the Legislature's budgeting process. *See* Report No. 23-02 at page 20.

Accordingly, it is not the *appearance* of inappropriate use, as the department says it will address; rather, the department must adhere to the purposes for which each fund was created, including both the sources of revenue and appropriate expenditures. To be clear, PSD should not be transferring moneys from the Correctional Industries Revolving Fund to "reimburse" the Federal Reimbursement Maximization Special Fund.

JOSH GREEN, M.D.
GOVERNOR



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No. _____

December 29, 2022

Leslie H. Kondo, State Auditor
Office of the Auditor
465 South King Street
Honolulu, Hawai'i 96813

Re: Review of Special, Revolving, Trust Funds, and Trust Accounts

Dear Mr. Kondo,

The Department of Public Safety (PSD) agrees with the Auditor's Observations on Reporting and Accounting for Funds outlined under Chapter 3, page 31 of the Report which states that non-general funds were not reported as required by Section 37-52.5, HRS and certain funds were not reported as required by Section 37-47, HRS.

- We have made corrective action on this issue. Last session, the information was provided directly to the House Committee on Finance and Senate Committee on Ways and Means. This year we will submit to the Legislature all reports required under Section 37-47, HRS; Section 37-48, HRS; Section 37-49, HRS; and Section 37-52.5, HRS.
- The funds that were missing from the 2022 Non-General Fund Report have been added to the 2023 report and will be included in all future reports while the funds are active.

PSD provides comments on Exhibit 2.3, "Fund(s) Not Meeting Criteria", found on page 9, for which five (5) funds were noted:

1. Administrator/Inmate Activity Account, Trust Account

This trust account has been in place since 1989. Activities under this account have not changed. PSD prefers to keep this as a trust account and agrees with the 2017 SRT Report findings that found that this account meets the criteria for a trust account.

2. Crime Victim Compensation Special Fund, Special Fund

PSD agrees that during the audit timeframe this special fund was having financial challenges due to the pandemic. Having realized that

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to be sustainable, general funds had to be sought to pay for fixed costs related to employee salaries. The budget request to do such action was supported by the 2022 Legislature. Act 248, SLH 2022 converted 6.0 FTE positions from being funded out of this special fund to general fund. Due to this, we foresee that this special fund will recover and will continue to be self-sustaining.

3. Law Enforcement Services – Airport, Special Fund

This special fund has been in place since 2001. Activities under this account have not changed. PSD prefers to keep this as a special fund and agrees with the 2017 SRT Report findings that found that this account meets the criteria for a special fund.

4. Maui Community Correctional Center, Special Fund

PSD is in the process of closing this account.

5. Narcotics Enforcement Agency Trust Account, Trust Account

The financial report included funds from two (2) trust accounts, T-xx-904, which receives revenues from federal forfeiture activities, and T-xx-908, which receives revenues from state forfeiture activities. PSD closed account T-xx-904. We are in discussion with the Narcotics Enforcement Division (NED) regarding the T-xx-908 for its closure as well.

PSD would also like to comment on the Federal Reimbursement Maximization Special Fund and the transfer of \$50,000 from the Correctional Industries Revolving Fund noted on Page 20 of the report. The transfer was to reimburse the Federal Reimbursement Maximization Special Fund for expenses incurred in purchasing a vehicle for Correctional Industries. Correctional Industries uses vehicles to transport inmate work line at various job sites. It was never the intent of the Department to misuse those two funds. We will be careful and properly document actions related to these two funds to ensure there is no appearance of inappropriate use.

Thank you very much for your staff's work in conducting the audit and for the opportunity to provide comments. We look forward to working with your staff in future engagements.

Sincerely,



Tommy Johnson
Director