



December 14, 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 Defense, Report No. 23-16*

Dear President Kouchi and Speaker Saiki:

Please find attached a copy of Report No. 23-16, *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Defense*, 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 Defense, 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/2023/23-16.pdf>.

The summary is also accessible through the Office of the Auditor's website at:
<https://files.hawaii.gov/auditor/Overviews/2023/23-16AuditorSummary.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

ec/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 Defense

Report No. 23-16

One special fund did not meet criteria

OUR REVIEW of one special fund, one revolving fund, five trust funds, and three trust accounts of the Department of Defense (DOD) found one special fund did not meet the criteria for a special fund 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 third review of DOD's revolving funds, trust funds, and trust accounts. It is our third review of the special funds held by DOD 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 DOD did not file statutorily required reports for non-general funds totaling approximately \$875,000, administratively created non-general funds totaling approximately \$12.6 million, and non-general funds with balances totaling approximately \$13.5 million under the cost element and program measures reporting requirements. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds.

Agency response

DOD DID NOT BELIEVE any revisions to the report were necessary and offered no further comments.



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.



Link to the complete report:

**Review of Special Funds, Revolving Funds, Trust Funds,
and Trust Accounts of the Department of Defense**

<https://files.hawaii.gov/auditor/Reports/2023/23-16.pdf>

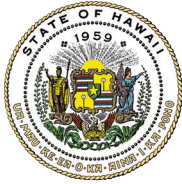
Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Defense

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

Report No. 23-16
December 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 Defense.

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 third review of the revolving funds, trust funds, and trust accounts of the Department of Defense. It is our third 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 Defense.

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 Defense (DOD). 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 third review of DOD’s revolving funds, trust funds, and trust accounts.¹ It is our third review of DOD’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 2018.

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 DOD.
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 (FY2019 – FY2023) unaudited financial summary for each fund and account of DOD.

Scope and Methodology

We reviewed all special funds, revolving funds, trust funds, and trust accounts administered by DOD during the five-year period under review (FY2019 – FY2023). Funds and accounts included those established pursuant to an act 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, 2018 to June 30, 2023), 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 FY2018 reported in our last review and opening balances reported for FY2019. 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. 18-11, *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Defense*.

Our review was conducted from June 2023 to September 2023. Recommendations were made where applicable.

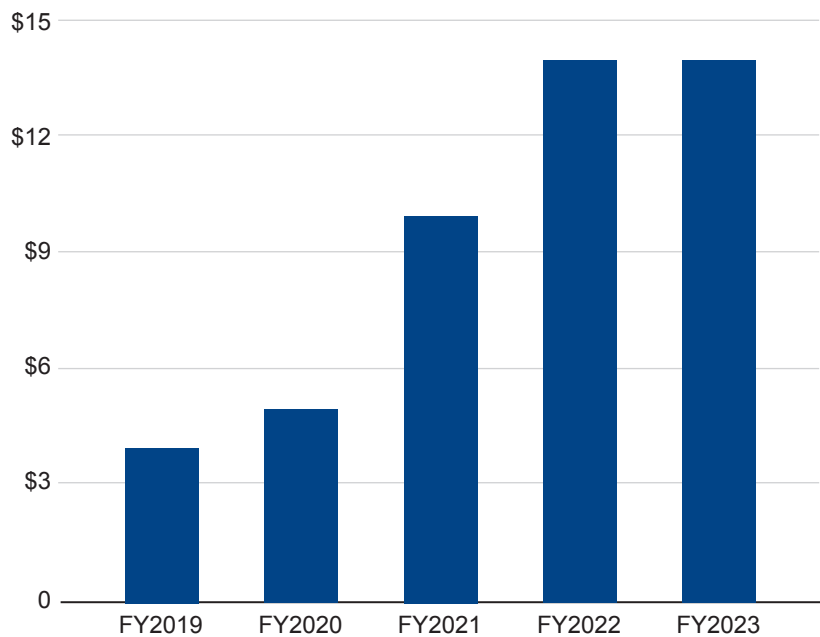
Chapter 2

Department of Defense

This chapter presents the results of our review of one special fund, one revolving fund, five trust funds, and three trust accounts. Total fund fiscal year-end balances for DOD amounted to at least \$3.9 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 Defense's
Non-General Funds, FY2019 – FY2023 (in millions)



Source: Office of the Auditor

In FY2023, the special fund, revolving fund, trust funds, and trust accounts collected approximately \$2.2 million and spent or transferred approximately \$2.7 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 FY2023.

Exhibit 2.2
Fund and Account Totals by Type, FY2023

Fund Type	Revenue and Interest	Expenses and Transfers	FY2023 End Cash Balance
Special Fund	\$450,000	\$20,000	\$430,000
Revolving Fund	450,000	5,000	445,000
Trust Funds/ Trust Accounts	1,345,000	2,710,000	12,648,000
Total	\$2,245,000	\$2,735,000	\$13,523,000

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 a DOD fund 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	FY2023 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
Hazard Mitigation Special Fund	Special Fund	\$430,107				✓	
Total		\$430,107					

Source: Office of the Auditor

Accumulated Vacation and Sick Leave – Federal Projects

Financial Data for Fiscal Years 2019 – 2023 (in thousands)					
	FY2019	FY2020	FY2021	FY2022	FY2023
Beginning Balance	\$1,008	\$987	\$954	\$954	\$957
Revenues	0	0	0	14	0
Interest	0	0	0	0	0
Expenditures	(21)	(33)	0	(11)	(51)
Transfers	0	0	0	0	0
Ending Balance	\$987	\$954	\$954	\$957	\$906
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 hold accumulated vacation and sick leave balances for state employees who transfer to the department and are now working on federally funded programs under a Master Cooperative Agreement (MCA) and make payments of vacation and sick leave balances upon termination or retirement from the department.
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 transfers from other state agencies or departments of accumulated vacation and sick leave benefits for state employees who transfer to the department and are now working for federally funded programs under the MCA.
Expenditures	Expenditures include transfers out or payments of vacation and sick leave benefits upon termination or retirement from the department.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-48, HRS	No.
Reported pursuant to Section 37-49, HRS	No.
Reported pursuant to Section 37-52.5, HRS	No.

**Asset Forfeiture Trust
Account – Federal**

Financial Data for Fiscal Years 2019 – 2021 (in thousands)

	FY2019	FY2020	FY2021
Beginning Balance	\$123	\$125	\$191
Revenues	0	252	17
Interest	0	0	0
Expenditures	0	(186)	(208)*
Transfers	2	0	0
Ending Balance	\$125	\$191	\$0
Encumbrances	\$0	\$0	\$0

*FY2021 expenditures include \$122,953 transferred to the U.S. Department of Justice upon account closure.

Fund Summary

Account Type	Trust account
How was the fund created?	Administratively established
Why was it created?	The account was used to receive a pro-rated share of funds from asset forfeiture cases from federal agencies; however, the department discontinued use of the account as asset forfeitures are now handled by the Hawai'i Department of Public Safety.
Account meets criteria?	This account was closed in FY2021, and the remaining balance was transferred to the U.S. Department of Justice.
Additional information	<p>During our review of the financial data for FY2019 – FY2021, we noted that the account received deposits from the Hawai'i Department of Health (DOH) for the Kokua 'Ohana Aloha (KOA) Outreach Program. KOA is a juvenile substance abuse prevention program administered in partnership by the Hawai'i National Guard, DOH, and DOD. All KOA program funds were expended for the program prior to the account closing in FY2021, and the program was dissolved. The reason this account was used for the KOA program is unclear.</p> <p>In Report No. 18-11, the Auditor noted that DOD used an inactive DOD fund, the Juvenile Accountability Block Grant, to account for KOA transaction activity as DOD did not have an appropriate financial vehicle to accept a funds transfer from DOH and prior KOA funding was processed through the general appropriations process. We recommend that the department establish separate funds or accounts for their specific purpose so financial activity can be appropriately recorded to the correct fund or account in the State's Financial Accounting Management Information System (FAMIS). The department noted a request was made to the Legislature for a separate interdepartmental transfers fund to account for the KOA activity; however, the request was denied as DOH did not have a separate interdepartmental transfers fund from which to transfer.</p>

FEMA - Major Disaster Trust Account

Financial Data for Fiscal Years 2019 – 2023 (in thousands)

	FY2019	FY2020	FY2021	FY2022	FY2023
Beginning Balance	\$342	\$1,862	\$2,983	\$8,196	\$12,376
Revenues	1,520	1,185	5,782	6,054	1,246
Interest	0	0	0	0	0
Expenditures	0	(64)	(569)	(1,874)	(2,495)
Transfers	0	0	0	0	0
Ending Balance	\$1,862	\$2,983	\$8,196	\$12,376	\$11,127
Encumbrances	\$0	\$100	\$5,095	\$4,059	\$5,249

Fund Summary

Account Type	Trust account
How was the account created?	Administratively established (2010)
Why was it created?	The account is used to hold deposits of federal reimbursement money for disaster relief.
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 reimbursements of disaster relief costs received from the Federal Emergency Management Agency.
Expenditures	Expenditures include costs to provide immediate relief in the event of a major disaster, including state management costs such as supplies, travel, contractors, authorized equipment, and payroll expenditures.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-48, HRS	No.
Reported pursuant to Section 37-49, HRS	No.
Reported pursuant to Section 37-52.5, HRS	No.

Hawai'i State Veterans Cemetery Trust Fund

Financial Data for Fiscal Years 2019 – 2023 (in thousands)

	FY2019	FY2020	FY2021	FY2022	FY2023
Beginning Balance	\$16	\$17	\$18	\$18	\$19
Revenues	1	1	0	1	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$17	\$18	\$18	\$19	\$19
Encumbrances	\$0	\$0	\$0	\$0	\$0

Fund Summary

Account Type	Trust fund
How was the fund created?	Administratively established (1991)
Why was it created?	The fund is used to receive donations from families and friends of deceased veterans, and to fund expenses for the upkeep and beautification of the Hawai'i State Veterans Cemetery.
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 donations from families and friends of deceased veterans.
Expenditures	Expenditures include floral arrangements for veterans' graves.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-48, HRS	No.
Reported pursuant to Section 37-49, HRS	No.
Reported pursuant to Section 37-52.5, HRS	No.

**Hazard Mitigation
Special Fund**

Financial Data for Fiscal Years 2022 – 2023 (in thousands)

Section 127A-18.5, HRS

	FY2022	FY2023
Beginning Balance	\$0	\$0
Revenues	0	450
Interest	0	0
Expenditures	0	(20)
Transfers	0	0
Ending Balance	\$0	\$430
Encumbrances	\$0	\$50

Fund Summary

Account Type	Special fund
How was the fund created?	Act 249 (SLH 2022)
Why was it created?	The fund is used to mitigate situations deemed by the Governor to be hazardous to the health and safety of the public.
Fund meets criteria?	This fund does not meet the criteria of a special fund. The fund should be repealed because it is not financially self-sustaining as it requires general fund appropriations.
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are from any recovery or reimbursement of mitigation costs, appropriations made by the Legislature, contributions from public or private partners, and all interest earned on or accrued to moneys deposited in the fund. However, the department noted that the primary source of revenue is through general fund appropriations.
Expenditures	Expenditures include personnel costs and operating and administrative costs deemed necessary by DOD to administer the mitigation of situations deemed by the Governor to be hazardous to the health and safety of the public such as trimming or removal of dangerous trees, stabilizing or removing unstable rock and soil hazards, and cleaning streams and waterways to mitigate or prevent flooding.
Reported pursuant to Section 37-47, HRS	No.
Reported pursuant to Section 37-48, HRS	No.
Reported pursuant to Section 37-49, HRS	No.
Reported pursuant to Section 37-52.5, HRS	Not applicable, the fund was established pursuant to an act.

**Juvenile Accountability
Block Grant**

Financial Data for Fiscal Years 2019 – 2020 (in thousands)

	FY2019*	FY2020
Beginning Balance	\$48	\$46
Revenues	135	0
Interest	0	0
Expenditures	(135)	(46)
Transfers	(2)	0
Ending Balance	\$46	\$0
Encumbrances	\$0	\$0

*All FY2019 revenues, expenditures, and transfers reflect KOA program activity. The remaining KOA funds were transferred to the Asset Forfeiture Account in FY2019.

Fund Summary

Account Type	Trust fund
How was the fund created?	Administratively established (2011)
Why was it created?	The fund was used to enable the delivery of educational and community-based programs to youth, young adults, and families of Hawai'i to reduce juvenile offenses.
Fund meets criteria?	This fund was closed in FY2020, and the remaining balance was transferred to the General Fund pursuant to Act 18, SLH 2019, as recommended by the Auditor in Report No. 18-11.
Additional information	In Report No. 18-11, the Auditor noted that DOD used this fund to account for KOA Outreach Program transaction activity as DOD did not have an appropriate financial vehicle to accept a funds transfer from DOH and prior KOA funding was processed through the general fund appropriations process. During our review of the DOD's Asset Forfeiture Trust Account, we noted DOD accounted for KOA transaction activity in the DOD Asset Forfeiture Account after KOA funds were transferred out of the Juvenile Accountability Block Grant. We recommend that the department establish separate funds or accounts for their specific purpose so financial activity can be appropriately recorded to the correct fund or account in the State's FAMIS system.

**Office of Hawaiian
Affairs Ceded Lands
Proceeds**

Financial Data for Fiscal Years 2019 – 2023 (in thousands)					
	FY2019	FY2020	FY2021	FY2022	FY2023
Beginning Balance	\$12	\$18	\$34	\$43	\$46
Revenues	8	20	12	11	34
Interest	0	0	0	0	0
Expenditures	(2)	(4)	(3)	(8)	(38)
Transfers	0	0	0	0	0
Ending Balance	\$18	\$34	\$43	\$46	\$42
Encumbrances	\$0	\$0	\$0	\$0	\$0

Fund Summary	
Account Type	Trust account
How was the account created?	Administratively established
Why was it created?	The account is used to collect and transfer twenty percent of the gross receipts from parking lots and facility rentals on ceded land to the Office of Hawaiian Affairs (OHA).
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 parking lot and facility rentals on ceded lands and a portion from properties on non-ceded lands.
Expenditures	Expenditures include payments to OHA of twenty percent of ceded land revenues. The department noted that prior to FY2020, 20 percent of net ceded land receipts were paid to OHA. In FY2020, 100 percent of gross ceded land receipts were paid to OHA to help make up losses in revenue from prior years. Since FY2021, 20 percent of gross ceded land receipts were paid to OHA.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-48, HRS	No.
Reported pursuant to Section 37-49, HRS	No.
Reported pursuant to Section 37-52.5, HRS	No.

**Resilient Hawai'i
Revolving Loan Fund**

Financial Data for Fiscal Years 2022 – 2023 (in thousands)

Section 127A-16.5, HRS

	FY2022	FY2023
Beginning Balance	\$0	\$0
Revenues	1	450
Interest	0	0
Expenditures	0	(5)
Transfers	0	0
Ending Balance	\$0	\$445
Encumbrances	\$0	\$0

Fund Summary

Account Type	Revolving fund
How was the fund created?	Act 284 (SLH 2022)
Why was it created?	The fund is used to provide low- or no-interest loans to counties and nonprofit organization for local resilience projects that address mitigation of all hazards, including natural disasters. The department stated that the intent of the fund was to ensure that the State was ready to receive federal funds from the Safeguarding Tomorrow through Ongoing Risk Mitigation (STORM) Act of 2021 and serve as the State's cost share for federal grant funds related to the STORM Act.
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 moneys received as repayment of loans, including interest and payments received on account of principal, federal or private funding sources, moneys appropriated by the Legislature, investment and interest earnings, and all other moneys received by the fund from any other source. The fund received general fund appropriations in FY2023 pursuant to Act 284, SLH 2022, to initiate the loan program, including two full-time positions within the Hawai'i Emergency Management Agency for administrative support for the fund; however, the department noted they did not have sufficient time to establish the loan program before funds lapsed on June 30, 2023 as general funds were not received until April 21, 2023.
Expenditures	Expenditures include providing low- or no-interest loans to the counties and nonprofit organizations for local resilient projects that address mitigation of all hazards, including natural disasters, as well as administrative support associated with the revolving loan fund, including the hiring of necessary staff.
Reported pursuant to Section 37-47, HRS	No.
Reported pursuant to Section 37-48, HRS	No.

Reported pursuant to Section 37-49, HRS	No.
Reported pursuant to Section 37-52.5, HRS	Not applicable, the fund was established pursuant to an act.
Additional information	The department noted that the first round of federal funding for the STORM Act was in December 2022; however, they were unable to apply for funding as they needed plans from individual counties for specific programs the loans would be used for. The department also noted that it anticipates round two of the funding will occur in early 2024 and will try to apply for funding at that time.

Security Deposits - Use Permits

Financial Data for Fiscal Years 2019 – 2023 (in thousands)

	FY2019	FY2020	FY2021	FY2022	FY2023
Beginning Balance	\$1,148	\$719	\$507	\$525	\$616
Revenues	62	46	18	262	64
Interest	0	0	0	0	0
Expenditures	(491)	(258)	0	(171)	(126)
Transfers	0	0	0	0	0
Ending Balance	\$719	\$507	\$525	\$616	\$554
Encumbrances	\$10	\$0	\$0	\$250	\$161

Fund Summary

Account Type	Trust fund
How was the fund created?	Administratively established
Why was it created?	The fund is used to hold and track revenues and expenses relating to use permits for the rental of armories, training sites, parking, lodging, and energy saving reinvestment for the department.
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 DOD facility usage fees charged for armories, training sites, parking, and lodging.
Expenditures	Expenditures include facility maintenance, utilities, and other upkeep costs, and are authorized only for use by the facility which generated the revenue.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-48, HRS	No.
Reported pursuant to Section 37-49, HRS	No.
Reported pursuant to Section 37-52.5, HRS	No.

Tsunami and Hurricane Preparedness Efforts

Financial Data for Fiscal Years 2019 – 2020 (in thousands)

	FY2019	FY2020
Beginning Balance	\$117	\$117
Revenues	0	0
Interest	0	0
Expenditures	0	(117)
Transfers	0	0
Ending Balance	\$117	\$0
Encumbrances	\$25	\$0

Fund Summary

Account Type	Trust fund
How was the fund created?	Administratively established (2005)
Why was it created?	The fund was used to accomplish specific tasks stated in the Disaster Emergency Preparedness Act of 2005 (enacted during the 2005 Special Session) related to tsunami and hurricane preparedness such as installing and maintaining new siren warning systems, updating evacuation maps in telephone books, constructing additional shelter space, and retrofitting existing public buildings that could serve as emergency shelters.
Fund meets criteria?	This fund was closed in FY2020, and the remaining balance was transferred to the General Fund.

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 37-48, 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.

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.

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, program measures, as required by Section 37-48, HRS, cost elements, as required by Section 37-49, HRS, as well as fund information for administratively established funds and accounts under Section 37-52.5, HRS.

As shown in Exhibit 3.1, DOD had administratively created non-general funds with balances totaling approximately \$12.6 million that were not reported to the Legislature as required by Section 37-52.5, HRS, non-general funds with balances totaling approximately \$875,000 that were not reported to the Legislature as required by Section 37-47, HRS, and non-general funds with balances totaling \$13.5 million that were not reported to the Legislature as required by Sections 37-48 and 37-49, 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)	FY2023 Ending Balance (rounded)	HRS 37-48 (Non-General Program (Measures))	FY2023 Ending Balance (rounded)	HRS 37-49 (Non-General Cost Element)	FY2023 Ending Balance (rounded)	HRS 37-52.5 (Admin Created)	FY2023 Ending Balance (rounded)
Accumulated Vacation and Sick Leave – Federal Projects	Trust Fund			✓	\$906,000	✓	\$906,000	✓	\$906,000
FEMA – Major Disaster Trust Account	Trust Account			✓	11,127,000	✓	11,127,000	✓	11,127,000
Hawai'i State Veterans Cemetery Trust Fund	Trust Fund			✓	19,000	✓	19,000	✓	19,000
Hazard Mitigation Special Fund	Special Fund	✓	\$430,000	✓	430,000	✓	430,000		
Office of Hawaiian Affairs Ceded Lands Proceeds	Trust Account			✓	42,000	✓	42,000	✓	42,000
Resilient Hawai'i Revolving Loan Fund	Revolving Fund	✓	445,000	✓	445,000	✓	445,000		
Security Deposits – Use Permits	Trust Fund			✓	554,000	✓	554,000	✓	554,000
Total			\$875,000		\$13,523,000		\$13,523,000		\$12,648,000

Source: Office of the Auditor

Office of the Auditor's Comments on the Department of Defense's Response

Comments on Agency Response

WE TRANSMITTED a draft of this review to the Department of Defense (DOD) on October 2, 2023. We made minor changes at DOD's request. DOD subsequently informed us that it had reviewed the report and did not believe any further revisions were necessary.

