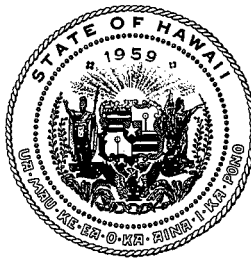


STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



LESLIE H. KONDO
State Auditor

(808) 587-0800
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DEPT. COMM. NO. 48

November 21, 2017

VIA HAND DELIVERY

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

Re: Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the
Department of Public Safety, Report No. 17-11

Dear President Kouchi:

We are enclosing a copy of our report, *Review of the Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Public Safety*, Report No. 17-11.

This report presents a five-year summary for each special fund, revolving fund, trust fund, and trust account, 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. We determined that one revolving fund did not meet criteria and should be closed.

The report is accessible through the Office of the Auditor's website at
<http://files.hawaii.gov/auditor/Reports/2017/17-11.pdf>

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

Very truly yours,

A handwritten signature in black ink, appearing to be "Leslie H. Kondo", written over a horizontal line.

Leslie H. Kondo
State Auditor

Enclosure

Auditor's Summary

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

Report No. 17-11

One revolving fund did not meet criteria

OUR REVIEW OF SIX SPECIAL FUNDS, three revolving funds, four trust funds, and five trust accounts of the Department of Public Safety (PSD) found one revolving fund did not meet criteria and should be closed.

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 fifth review of PSD's revolving funds, trust funds, and trust accounts. It is our first review of PSD's special funds.

We used criteria developed by the Legislature and by our office based on public finance and accounting literature. For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not audit the financial data which is provided for informational purposes. We do not present conclusions about the effectiveness of programs or their management, or whether the programs should be continued.

Reporting shortfall

WE ALSO NOTED that PSD did not file statutorily required reports for non-general funds and for administratively created funds. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

Agency response

PSD GENERALLY AGREED with our findings and will take appropriate action to close the revolving fund that did not meet criteria. PSD will also comply with reporting requirements.



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.

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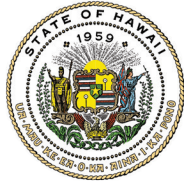
Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Public Safety

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

Report No. 17-11
November 2017



OFFICE OF THE AUDITOR
STATE OF HAWAII



OFFICE OF THE AUDITOR STATE OF HAWAII

Constitutional Mandate

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

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

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

Our Mission

To improve government through independent and objective analyses.

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

Our Work

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

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

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

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

Foreword

This is a report of our review of the special funds, revolving funds, trust funds, and trust accounts of the Department of 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 included trust accounts as part of our review. This is our fifth review of the revolving funds, trust funds, and trust accounts of the Department of Public Safety. It is our first 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 officials and staff of the Department of Public Safety.

Leslie H. Kondo
State Auditor

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Auditor's Summary

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

Report No. 17-11

One revolving fund did not meet criteria

OUR REVIEW OF SIX SPECIAL FUNDS, three revolving funds, four trust funds, and five trust accounts of the Department of Public Safety (PSD) found one revolving fund did not meet criteria and should be closed.

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 fifth review of PSD's revolving funds, trust funds, and trust accounts. It is our first review of PSD's special funds.

We used criteria developed by the Legislature and by our office based on public finance and accounting literature. For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not audit the financial data which is provided for informational purposes. We do not present conclusions about the effectiveness of programs or their management, or whether the programs should be continued.

Reporting shortfall

WE ALSO NOTED that PSD did not file statutorily required reports for non-general funds and for administratively created funds. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility.

Agency response

PSD GENERALLY AGREED with our findings and will take appropriate action to close the revolving fund that did not meet criteria. PSD will also comply with reporting requirements.



FUND TYPES

SPECIAL FUNDS

are used to account for revenues earmarked for particular purposes and from which expenditures are made for those purposes.

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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.

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. Specifically, the Auditor’s review must include:

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

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

This is our fifth review of PSD’s revolving funds, trust funds, and trust accounts, and our first review of special funds held by PSD.¹ We last examined PSD’s revolving funds, trust funds, and trust accounts in 2012.

In this report, we review 18 funds administered by PSD — specifically, six special funds, three revolving funds, four trust funds, and five trust accounts.

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

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

Special funds

Section 37-62, HRS, defines a special fund as one that is “dedicated or set aside by law for a specified object or purpose, but excluding revolving funds and trust funds.” According to the State’s *Accounting Manual*, special funds are funds used to account for revenues earmarked for particular purposes and from which expenditures are made for those purposes. Examples of special funds include the Captive Insurance Administrative Fund, which is funded by fees paid by insurers that support the State’s Captive Insurance Program, and the Wireless Enhanced 911 Fund. The Wireless Enhanced 911 Fund receives surcharges from wireless phone users for the upgrade of the 911 emergency system.

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. An example of a revolving fund is the State Motor Pool Revolving Fund, which is used to purchase and maintain the State’s fleet of motor vehicles and is replenished by charges to state agencies for the use of the vehicles.

Trust funds

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

Trust accounts

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

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

Special and revolving fund criteria

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

- Serves a need, as demonstrated by: (1) the purpose of the program to be supported by the fund; (2) the scope of the program, including financial information on fees to be charged, sources of projected revenue, and costs; and (3) an explanation of why the program cannot be implemented successfully under the general fund appropriation process;
- Reflects a clear nexus between the benefits sought and charges made upon the program users or beneficiaries, or a clear link between the program and the sources of revenue — as opposed to serving primarily as a means to provide the program or users with an automatic means of support, removed from the normal budget and appropriation process;
- Provides an appropriate means of financing for the program or activity that is used only when essential to the successful operation of the program or activity; and
- Demonstrates the capacity to be financially self-sustaining.

Trust fund and trust account criteria

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

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

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

Objectives of the Review

1. Identify and review all special funds, revolving funds, trust funds, and trust accounts of 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 (FY2013–FY2017) unaudited financial summary for each fund and account reviewed.

Scope and Methodology

We reviewed all special funds, revolving funds, trust funds, and trust accounts directly administered by PSD during the five-year period under review (FY2013–FY2017). 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, 2012 to June 30, 2017), 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 FY2012 reported in our last review, Report No. 12-10, and opening balances reported for FY2013. We did not audit PSD's financial data, which are provided for informational purposes only.

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

Where appropriate, we relied on our prior reports, including Report Nos. 97-20, *Review of Revolving and Trust Funds of the Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Public Safety, and Department of Taxation*; 02-15, *Report on the Revolving Funds, Trust Funds, and Trust Accounts of the Department of Human Resources Development, Department of Labor and Industrial Relations, Department of Public Safety, and Department of Taxation*; 07-07, *Review of Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation*; 12-04, *Study of the Transfer of Non-general Funds to the General Fund*; and 12-10, *Review of Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Human Resources Development, Labor and Industrial Relations, Public Safety, and Taxation*.

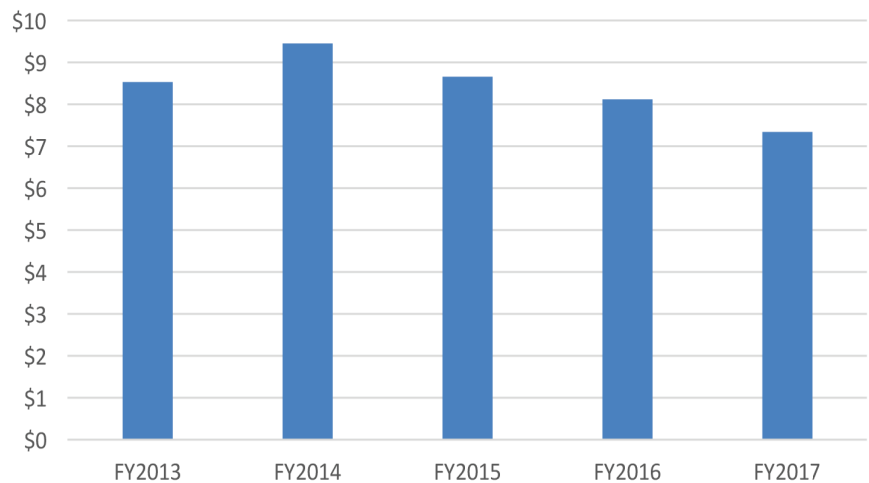
Our review was conducted from July to October 2017. Recommendations were made where applicable.

Chapter 2

Department of Public Safety

This chapter presents the results of our review of six special funds, three revolving funds, four trust funds, and five trust accounts. Fund fiscal year-end balances amounted to at least \$7 million per year during the period reviewed. Exhibit 2.1 displays the totals for these fund balances at the end of each fiscal year.

Exhibit 2.1
Cash Balances for PSD Non-General Funds,
FY2013–FY2017 (in millions)



Source: Office of the Auditor

Substantial amounts were also collected and expended by the funds annually. In FY2017, the special funds, revolving funds, trust funds, and trust accounts collected more than \$20 million and spent or transferred more than \$21 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 FY2017.

Exhibit 2.2
PSD Fund Totals by Type, FY2017

Fund Type	Revenue and Interest	Expenses and Transfers	Year-End Cash Balance
Special Funds	\$7,492,000	\$8,235,000	\$3,406,000
Revolving Funds	6,387,000	6,298,000	498,000
Trust Funds and Trust Accounts	6,573,000	6,695,000	3,437,000
Total	\$20,452,000	\$21,228,000	\$7,341,000

Source: Office of the Auditor

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

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

Exhibit 2.3
PSD Fund Not Meeting Criteria

Fund Name	Fund Type	FY2017 Ending Balance (rounded)	No longer serves original purpose and/or does not serve a need	No clear nexus between benefits sought and user charges or a clear link between the program and revenue sources	Inappropriate financing mechanism	Not financially self-sustaining	Does not meet revolving fund, special fund, trust fund, or trust account definition
Revolving Funds for Correctional Facility Stores	Revolving	\$74,000	✓				

Source: Office of the Auditor

**Administrator/
Inmate Activity Account
(trust account)**

**Administratively
established**

Financial Data for FY2013–2017 (in thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017
Beginning Balance	\$72	\$90	\$81	\$74	\$83
Revenues	50	16	19	37	29
Interest	0	0	0	0	0
Expenditures	(32)	(25)	(26)	(28)	(37)
Transfers (net)	0	0	0	0	0
Ending Balance	\$90	\$81	\$74	\$83	\$75
Encumbrances	\$2	\$2	\$0	\$9	\$0

This account continues to meet the criteria for a trust account. Created in 1989, the account is used to purchase miscellaneous items for the benefit of all inmates. Revenues come from sales of excess resident craft material and hobby items and returns from special fundraising activities such as shows conducted by the inmates. Funds are used to purchase food supplies for special activities; repair and maintain recreational equipment; and purchase musical instruments, televisions, DVDs, and Blu-ray discs.

**Automated Victim
Information and
Notification System
Special Fund
(special fund)**

Section 353-136, HRS

Financial Data for FY2013–2017 (in thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017
Beginning Balance	\$0	\$141	\$330	\$446	\$573
Revenues	141	246	233	250	278
Interest	0	0	0	3	4
Expenditures	0	(57)	(117)	(126)	(128)
Transfers (net)	0	0	0	0	0
Ending Balance	\$141	\$330	\$446	\$573	\$727
Encumbrances	\$57	\$0	\$11	\$11	\$11

This fund continues to serve the purpose for which it was created and meets the criteria for a special fund. Created in 2012, the fund was established for the purpose of automatically notifying a registered victim or concerned member of the community when the offender who is in the custody of the department: (1) is transferred or assigned to another facility; (2) is transferred to the custody of another agency outside the

State; (3) is released on temporary leave or for other reasons; (4) is discharged or has escaped; or (5) has a change in the offender's parole status, including a change in the offender's supervision status. Revenues consist of a 4% surcharge on items purchased by an in-state or out-of-state inmate from a correctional facility commissary; any proceeds or revenues derived from any commission realized pursuant to a telephone service agreement by the department for the provision of telephone services for inmates; and interest and investment earnings. Expenditures consist of development and operating expenses, including salaries and benefits.

***Controlled Substance
Registration Revolving
Fund
(revolving fund)***

Section 329-59, HRS

Financial Data for FY2013–2017 (in thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017
Beginning Balance	\$462	\$518	\$370	\$158	\$47
Revenues	525	745	586	382	413
Interest	1	1	1	1	0
Expenditures	(470)	(566)	(598)	(494)	(419)
Transfers (net)*	0	(328)	(201)	0	0
Ending Balance	\$518	\$370	\$158	\$47	\$41
Encumbrances	\$10	\$57	\$60	\$15	\$0

*The Medical Marijuana Program, including funds related to the program, was transferred to the Department of Health.

This fund continues to serve the purpose for which it was created and meets the criteria for a revolving fund. Created in 1996, the fund was established for: (1) offsetting the cost of the State's electronic prescription accountability system; (2) offsetting the cost of the operation of the State's forensic drug laboratory; (3) the registration and control of the manufacture, distribution, prescription, and dispensation of controlled substances and regulated chemicals and the processing and issuance of a patient registry identification certificate; and (4) funding positions authorized by the Legislature. Revenues are from registration fees relating to the manufacture and handling of controlled substances and regulated chemicals in the State. The fund benefits persons who administer, prescribe, dispense, or handle any controlled substances; manufacturers, distributors, retail distributors, and other persons who sell, distribute, or store regulated chemicals; persons who qualify under Hawai'i's Medical Use of Marijuana Program to utilize marijuana for medical purposes; and the Narcotics Enforcement Division of the department.

**Correctional Industries
Revolving Fund
(revolving fund)**

Section 354D-10, HRS

Financial Data for FY2013–2017 (in thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017
Beginning Balance	\$1,614	\$1,328	\$1,375	\$746	\$288
Revenues	3,900	4,522	4,898	5,593	5,957
Interest	0	1	4	2	16
Expenditures	(4,186)	(4,476)	(5,531)	(6,053)	(5,879)
Transfers (net)	0	0	0	0	0
Ending Balance	\$1,328	\$1,375	\$746	\$288	\$382
Encumbrances	\$154	\$457	\$312	\$847	\$280

This fund continues to serve the purpose for which it was created and meets the criteria for a revolving fund. Created in 1990, the fund is used to account for transactions of the department's Correctional Industries Program. This program provides inmates with specific training skills in a workplace environment to improve their employment prospects after release. Receipts from the sale of goods and services produced by inmates are used to support the vocational training program. The benefits received are directly linked to the charges made upon the users as nonprofit organizations, state, and other government agencies are provided cost-effective products and services produced by the inmates.

**Crime Victim
Compensation Special
Fund
(special fund)**

Section 351-62.5, HRS

Financial Data for FY2013–2017 (in thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017
Beginning Balance	\$952	\$889	\$1,024	\$1,119	\$1,239
Revenues	945	1,041	898	959	1,006
Interest	2	2	4	8	6
Expenditures	(1,010)	(908)	(807)	(847)	(1,044)
Transfers (net)	0	0	0	0	0
Ending Balance	\$889	\$1,024	\$1,119	\$1,239	\$1,207
Encumbrances	\$148	\$1	\$0	\$1	\$0

This fund continues to serve the purpose for which it was created and meets the criteria for a special fund. Created in 1998, the purpose of the fund is to compensate victims of certain crimes, or dependents of

deceased victims of certain crimes, for their out-of-pocket expenses, losses, and pain and suffering resulting from the crime. Revenues come from compensation fees assessed against criminal offenders, court-ordered restitution, a percentage of inmate wages, and interest income from the fund. Expenditures consist of compensation awards made to and on behalf of the victims, personnel payroll, and administrative expenses of the Crime Victim Compensation Commission.

***Drug Law Enforcement
Equipment Procurement
Trust Account
(trust account)***

***Administratively
established***

Financial Data for FY2013–2017 (in thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017
Beginning Balance	\$30	\$34	\$34	\$34	\$8
Revenues	190	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(186)	0	0	(26)	0
Transfers (net)	0	0	0	0	0
Ending Balance	\$34	\$34	\$34	\$8	\$8
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account continues to meet the criteria for a trust account. This account was established to serve as a clearing account for funds received from state and county law enforcement agencies for purchase of equipment from the federal government. The equipment or supplies purchased must be in support of a drug investigation or activity with a drug nexus. Funds deposited to the account are from other state and county law enforcement agencies.

**Federal Reimbursement
Maximization Special
Fund
(special fund)**

Section 353C-7, HRS

Financial Data for FY2013–2017 (in thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017
Beginning Balance	\$1,629	\$1,666	\$1,677	\$1,485	\$1,370
Revenues	198	311	241	228	335
Interest	0	0	0	0	0
Expenditures	(161)	(300)	(433)	(343)	(705)
Transfers (net)	0	0	0	0	0
Ending Balance	\$1,666	\$1,677	\$1,485	\$1,370	\$1,000
Encumbrances	\$127	\$320	\$441	\$588	\$405

This fund continues to serve the purpose for which it was created and meets the criteria for a special fund. Created in 2001, the fund was established for the deposit of all federal reimbursements relating to the State Criminal Alien Assistance Program. Revenues are used to meet state match requirements for federal grants and costs associated with federal grant reporting requirements; maintain existing federal grants as well as pursuing federal grants; hire consultants to provide training for corrections officers and/or to conduct facility or program evaluations; rent or purchase vehicles to transport inmates; provide pre-release and reentry programs; improve technology; and recruit and retain corrections workforce.

**FEMA – Kauaʻi
Community Correctional
Center
(special fund)**

**Administratively
established**

Financial Data for FY2013–2015 (in thousands)

	FY2013	FY2014	FY2015
Beginning Balance	\$0	\$0	\$0
Revenues	42	0	0
Interest	0	0	0
Expenditures	(42)	0	0
Transfers (net)	0	0	0
Ending Balance	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0

This fund was closed in FY2015. The department reported that the fund was used to deposit reimbursements from the Federal Emergency Management Agency for damages claimed as a result of a hurricane.

***Gifts to the Department
of Public Safety Trust
Fund
(trust fund)***

Section 353-32, HRS

Financial Data for FY2013–2017 (in thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017
Beginning Balance	\$8	\$8	\$8	\$8	\$8
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers (net)	0	0	0	0	0
Ending Balance	\$8	\$8	\$8	\$8	\$8
Encumbrances	\$4	\$4	\$4	\$0	\$0

This fund continues to serve the purpose for which it was created and meets the criteria for a trust fund. This fund was established in 1995 as a holding account for monetary gifts received by the department from sources other than the Legislature or the federal government. The department receives monetary gifts for specific programs. These gifts are used for the benefit of the inmates and the programs administered by the department.

***Laura and John Arnold
Foundation
(trust fund)***

***Administratively
established***

Financial Data for FY2013–2017 (in thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017
Beginning Balance	\$0	\$0	\$337	\$181	\$219
Revenues	0	360	1	433	0
Interest	0	0	0	0	1
Expenditures	0	(23)	(157)	(395)	(116)
Transfers (net)*	0	0	0	0	(104)
Ending Balance	\$0	\$337	\$181	\$219	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

*The fund was closed and the remaining balance was refunded to the Laura and John Arnold Foundation.

This fund was closed and the remaining balance was refunded to the Laura and John Arnold Foundation in FY2017. This fund was established on June 24, 2013, when the Laura and John Arnold Foundation issued a grant to the department to conduct a two-year

research pilot project on the applicability of Hawai‘i’s Opportunity Probation with Enforcement (HOPE) probation supervision criteria on a pretrial population. HOPE is a judge and probation driven supervision project with immediate sanctions for violations of probation conditions. A target population of 50 high-risk pretrial defendants were randomly selected for the first year, and 75 for the second year of the pilot project. Expenditures consisted of costs associated with various staffing positions, drug testing kits, a telephone line for reporting purposes, and substance abuse drug treatment.

***Law Enforcement
Services – Airport
(special fund)***

***Administratively
established***

Financial Data for FY2013–2017 (in thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017
Beginning Balance	\$536	\$298	\$603	\$502	\$779
Revenues	3,915	4,742	4,553	5,172	5,668
Interest	0	0	0	0	0
Expenditures	(4,153)	(4,437)	(4,654)	(4,895)	(6,242)
Transfers (net)	0	0	0	0	0
Ending Balance	\$298	\$603	\$502	\$779	\$205
Encumbrances	\$82	\$80	\$107	\$130	\$147

This fund continues to serve the purpose for which it was created and meets the criteria for a special fund. Created in 2001, the fund was established for: (1) guarding the Daniel K. Inouye International Airport; (2) preserving the peace and protecting the public; (3) enforcing all state laws, rules, and regulations for the prevention and control of crime; (4) enforcing the Uniform Controlled Substance Act and other substance-related regulations; and (5) serving process in civil and criminal proceedings. Revenues are from reimbursements by Department of Transportation, Airports Division, to the department for actual costs for law enforcement services provided by the department’s Sheriff’s Division, including (1) protecting persons and property in the airport area; (2) maintaining security of the airport; (3) coordinating and working with other law enforcement and security personnel; and (4) enforcing all laws, ordinances, rules, and regulations.

**Maui Community
Correctional Center
(special fund)**

**Administratively
established**

Financial Data for FY2013–2017 (in thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017
Beginning Balance	\$217	\$231	\$194	\$197	\$188
Revenues	117	115	117	97	195
Interest	0	0	0	0	0
Expenditures	(103)	(152)	(114)	(106)	(116)
Transfers (net)	0	0	0	0	0
Ending Balance	\$231	\$194	\$197	\$188	\$267
Encumbrances	\$43	\$1	\$2	\$14	\$13

This fund continues to serve the purpose for which it was created and meets the criteria for a special fund. Created in 1993, the fund is a partnership between Maui County and the Maui Community Correctional Center which enables inmates to participate in community activities that assist in the reintegration process. Revenues are from funds awarded by the Maui County Council to the Maui Community Correctional Center. The funds are used to pay for expenses incurred by the inmate work line in areas of light construction.

**Narcotics Enforcement
Agency Trust Account
(trust account)**

**Administratively
established**

Financial Data for FY2013–2017 (in thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017
Beginning Balance	\$1,005	\$969	\$1,054	\$1,241	\$1,134
Revenues	166	185	318	109	344
Interest	3	5	5	9	0
Expenditures	(205)	(105)	(136)	(225)	(143)
Transfers (net)	0	0	0	0	0
Ending Balance	\$969	\$1,054	\$1,241	\$1,134	\$1,335
Encumbrances	\$5	\$19	\$89	\$226	\$7

This account continues to meet the criteria for a trust account. Created in 1991, the account is used to hold forfeiture proceeds derived from unlawful drug activities. The primary purpose of the forfeiture program is to deter crime by depriving criminals of the profits and proceeds of their illegal activities and to weaken criminal enterprises by removing the

instrumentalities of crime. The fund primarily benefits the department's Narcotics Enforcement Division by providing a supplemental revenue source to be used for training; purchase of equipment and services; and other law enforcement purposes. The account receives revenues that are derived from a portion of the forfeited property, cash, and sale proceeds from drug investigations that result in criminal forfeiture.

***Prisoners' Trust
Account (Not in State
Treasury)
(trust account)***

Section 353-20, HRS

Financial Data for FY2013–2017 (in thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017
Beginning Balance	\$1,381	\$1,265	\$1,247	\$1,428	\$1,421
Revenues	4,143	4,660	4,621	5,665	5,591
Interest	0	0	0	0	0
Expenditures	(4,259)	(4,678)	(4,440)	(5,672)	(5,747)
Transfers (net)	0	0	0	0	0
Ending Balance	\$1,265	\$1,247	\$1,428	\$1,421	\$1,265
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account continues to meet the criteria for a trust account. Created in 1989, the account was established as holding accounts for moneys earned by inmates through their labor or training programs; moneys given by family; and other authorized sources. The department maintains individual ledger accounts for each inmate, and issues statements showing credits and debits. Inmates are permitted to withdraw funds from their accounts for approved purposes. The balance remaining in the account is paid to the inmates upon parole or discharge.

***Revolving Funds for
Correctional Facility
Stores
(revolving funds)***

***Administratively
established***

Financial Data for FY2013–2017 (in thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017
Beginning Balance	\$45	\$28	\$49	\$67	\$74
Revenues	13	24	18	8	0
Interest	0	0	0	0	0
Expenditures	(30)	(3)	0	(1)	0
Transfers (net)	0	0	0	0	0
Ending Balance	\$28	\$49	\$67	\$74	\$74
Encumbrances	\$0	\$0	\$0	\$0	\$29

These funds no longer meet the criteria for a revolving fund and should be closed. Created in 1989, the funds were used for purchasing items to be resold to inmates and for purchasing of other goods or services for inmate benefits and needs. The department reported that the facilities no longer operate in-house inmate stores and store services are contracted to the Hawai‘i Correctional Industries program. Accordingly, the department plans to close this account and transfer the remaining balance to the Administrator/Inmate Activity Account where profits made from the stores are currently deposited.

***Temporary Deposits—
Payroll Assignment
Account
(trust account)***

***Administratively
established***

Financial Data for FY2013–2017 (in thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017
Beginning Balance	\$840	\$866	\$908	\$826	\$500
Revenues	27	42	22	45	20
Interest	0	0	0	0	0
Expenditures	(1)	0	(104)	(371)	(96)
Transfers (net)	0	0	0	0	0
Ending Balance	\$866	\$908	\$826	\$500	\$424
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account continues to meet the criteria for a trust account. Created in 1994, this account is used as a holding account for salary overpayments until the overpayments are returned to the general fund for prior-year collections or returned to the specific program that incurred the overpayment during the current year.

**Victim Restitution Trust
Fund
(trust fund)**

**Administratively
established**

Financial Data for FY2013–2017 (in thousands)

	FY2013	FY2014	FY2015	FY2016	FY2017
Beginning Balance	\$261	\$206	\$153	\$151	\$186
Revenues	591	746	296	679	587
Interest	0	0	0	1	1
Expenditures	(646)	(799)	(298)	(645)	(452)
Transfers (net)	0	0	0	0	0
Ending Balance	\$206	\$153	\$151	\$186	\$322
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund continues to serve the purpose for which it was created and meets the criteria for a trust fund. This fund was established in 2003 as part of a victim restitution pilot project. The project enables the department to meet its statutory obligation to collect and disburse restitution from inmates and parolees pursuant to court orders. Revenues are from court-ordered restitution collected from inmates and parolees. Beneficiaries are victims whose crime-related losses are being reimbursed through court-ordered restitution.

**Women's Community
Correctional Center
Trauma-Informed Care
Initiative Trust Fund
(trust fund)**

**Administratively
established**

Financial Data for FY2013 (in thousands)

	FY2013
Beginning Balance	\$0
Revenues	39
Interest	0
Expenditures	(39)
Transfers (net)	0
Ending Balance	\$0
Encumbrances	\$0

The fund was closed in FY2013. Created in 2010, fund revenues were from a \$50,000 grant from the Office of Hawaiian Affairs and State matching funds of \$26,568 from the Mental Health Transformation State Initiative Grant. The fund was used for a pilot project that developed a

universal screening process for trauma-related problems for women at the Women's Community Correctional Center. The project addressed the issue of inter-generational transmission of historical trauma and histories of trauma-induced experiences that frequently placed women on the path to involvement with the criminal justice system. The project was designed to address the over-representation of native Hawaiian women in Hawai'i's prison system through the implementation of a culturally appropriate trauma-informed care program.

Chapter 3

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

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

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

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

During our review of PSD's non-general funds, we noted non-compliance with statutory requirements to report financial activity and balances, as required by section 37-47, HRS, as well as fund information for administratively established funds under Section 37-52.5, HRS. PSD did not report to the 2017 Legislature all non-general funds with balances totaling almost \$1 million at the end of FY2016, as shown in Exhibit 3.1.

As shown in Exhibit 3.2, PSD had administratively created non-general funds with balances totaling over \$3 million that were not reported to the Legislature, as required by Section 37-52.5, HRS.

Exhibit 3.1
PSD Funds Not Reported to the Legislature

Fund Name	Fund Type	FY2016 Ending Balance (rounded)
Laura and John Arnold Foundation	Trust	\$219,000
Law Enforcement Services—Airport	Special	779,000
PSD Total		\$998,000

Source: Office of the Auditor

Exhibit 3.2
**PSD Administratively Created Funds and Trust Accounts
Not Reported to the Legislature**

Fund Name	Fund Type	FY2016 Ending Balance (rounded)
Administrator/Inmate Activity Account	Trust Account	\$83,000
Drug Law Enforcement Equipment Procurement Trust Account	Trust Account	8,000
Laura and John Arnold Foundation	Trust	219,000
Law Enforcement Services—Airport	Special	779,000
Maui Community Correctional Center	Special	188,000
Narcotics Enforcement Agency Trust Account	Trust Account	1,134,000
Revolving Funds for Correctional Facility Stores	Revolving	74,000
Temporary Deposits—Payroll Assignment Account	Trust Account	500,000
Victim Restitution Trust Fund	Trust	186,000
PSD Total		\$3,171,000

Source: Office of the Auditor

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

Comments on Agency Response

We transmitted a draft of this review to PSD on November 13, 2017. PSD provided its written response to the draft report on November 17, 2017 (Attachment 1).

PSD generally agreed with our findings and will take appropriate action to close the revolving fund. PSD will also comply with reporting requirements.

DAVID Y. IGE
GOVERNOR



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No. 2017-3358

November 17, 2017

Leslie H. Kondo
State Auditor
Office of the Auditor
465 S. 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 comments as outlined in Report No. 17-11, page 24, Exhibit 3.1, "PSD Funds Not Reported to the Legislature", for which two funds were noted:

1) Laura and John Arnold Foundation, Trust Fund

The Department erred and did not report this fund to the Legislature. The trust account has since been completed and the fund will be closed during Fiscal Year 2018.

2) Law Enforcement Services-Airport, Special Fund

The Department did not report this fund as it was included in the budget request. The funds were transferred from the Department of Transportation, Airport Division, to PSD. Based on the Auditor's comment, the Department will begin including this fund in the Chapter 37-47 HRS report submitted through the Department of Budget and Finance (B&F) to the Legislature.

The PSD agrees with the Auditor's comments as outlined in Exhibit 3.2, "PSD Administratively Created Funds and Trust Accounts Not Reported to the Legislature", for which nine funds were noted.

While it is true that the Department did not specifically cite Chapter 37-52.5 HRS in any reports to the Legislature, the administratively created funds were reported to the Legislature based on the requirements of Chapter 37-47 HRS. Chapter 37-52.5 requires that administratively created funds be reported to the Legislature prior to the

Leslie H. Kondo
November 17, 2017
Page 2

start of each session. Chapter 37-47 HRS requires that all non-general funds be reported to the Legislature prior to the start of each session. Administratively created funds are included in the non-general fund report that is reported through B&F to the Legislature prior to the start of each legislative session.

The PSD agrees with the Auditor's finding that the revolving funds established for correctional facility stores no longer serves the original purpose and should be closed. The Department has closed all three inmate store accounts during Fiscal Year 2018.

To avoid the duplicate reporting of "administratively created funds" because of Chapter 37-47 and Chapter 37-52.5, it will be suggested to B&F that the current report B&F Form 37-47 states that this report includes Chapter 37-52.5 administratively created funds.

The PSD staff looks forward to working with your staff in future engagements.

Sincerely,

A handwritten signature in black ink, appearing to read "Nolan P. Espinda".

Nolan P. Espinda
Director
