

September 26, 2018

DEPT. COMM. NO. 10

VIA EMAIL & HAND DELIVERY (senkouchi@capitol.hawaii.gov)

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

Re: Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Defense, Report No. 18-11

Dear President Kouchi:

We are enclosing a copy of our report, *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Defense*, Report No. 18-11, 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, 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 Department of Defense did not have any special funds or revolving funds during the period of our review. We determined that one trust 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/2018/18-11.pdf>.

The summary is also accessible through the Office of the Auditor's website at:
<http://files.hawaii.gov/auditor/Overviews/2018/18-11AuditorSummary.pdf>.

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

Very truly yours,

A handwritten signature in black ink, appearing to be "LH Kondo", is written over the typed name and title.

Leslie H. Kondo
State Auditor

LHK:RTS:emo

Enclosures

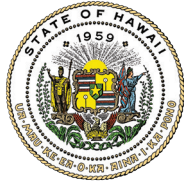
Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Defense

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

Report No. 18-11
September 2018



OFFICE OF THE AUDITOR
STATE OF HAWAII



OFFICE OF THE AUDITOR STATE OF HAWAII

Constitutional Mandate

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

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

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

Our Mission

To improve government through independent and objective analyses.

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

Our Work

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

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

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

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

Foreword

This is a report of our review of the special funds, revolving funds, trust funds, and trust accounts of the Department of 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 included trust accounts as part of our review. This is our second review of the special funds, revolving funds, trust funds, and trust accounts of the Department of Defense.

We wish to express our appreciation for the cooperation and assistance extended to us by the officials and staff of 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. 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 second review of DOD’s special funds, revolving funds, trust funds, and trust accounts.¹ We last examined these funds and accounts in 2013.

In this report, we reviewed 10 funds administered by DOD – specifically, six trust funds and four trust accounts.

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

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

Special funds

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

Revolving funds

Section 37-62, HRS, defines a revolving fund as one “from which is paid the cost of goods and services rendered or furnished to or by a state agency and which is replenished through charges made for the goods or services or through transfers from other accounts or funds.” Activities commonly financed through revolving funds include loan programs, which are initially established by general fund seed moneys and are then replenished through the repayment of loans.

Trust funds

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

Trust accounts

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

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

Special and revolving fund criteria

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

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

Trust fund and trust account criteria

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

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

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

Objectives of the Review

1. Identify and review all special funds, revolving funds, trust funds, and trust accounts of 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 (FY2014 – FY2018) unaudited financial summary for each fund and account reviewed.

Scope and Methodology

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

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

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

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

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

Where appropriate, we relied on our prior reports, including Report No. 14-04, *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Departments of Defense and Land and Natural Resources*.

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

Chapter 2

Department of Defense

This section presents the results of our review of 6 trust funds and 4 trust accounts. DOD did not have any special funds or revolving funds during the period of our review. Fund fiscal year-end balances amounted to at least \$2.5 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 DOD Non-General Funds

Fund Type	FY2014	FY2015	FY2016	FY2017	FY2018
Special Funds	\$0	\$0	\$0	\$0	\$0
Revolving Funds	0	0	0	0	0
Trust Funds and Trust Accounts	2,540,392	2,696,546	2,807,802	2,853,550	2,814,076
Total	\$2,540,392	\$2,696,546	\$2,807,802	\$2,853,550	\$2,814,076

Source: Office of the Auditor

Substantial amounts were also collected and expended by the funds annually. In FY2018, the trust funds and trust accounts collected nearly \$263,000 and spent or transferred more than \$302,000.

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

Exhibit 2.2 presents DOD's fund that did not meet criteria for continuance and should be closed.

Exhibit 2.2
DOD Fund Not Meeting Criteria

Fund Name	Fund Type	FY2018 Ending Balance (rounded)	No longer serves the purpose and intent for which it was originally created	Does not meet the definition of a trust fund
Juvenile Accountability Block Grant	Trust Fund	\$46,000*	✓	

* FY2018 balance does not include \$2,000 related to the Kokua 'Ohana Aloha program.

Source: Office of the Auditor

**Accumulated Vacation
and Sick Leave –
Federal Projects**

***Administratively
established***

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

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$994	\$1,090	\$1,110	\$1,115	\$1,048
Revenues	128	21	10	2	0
Interest	0	0	0	0	0
Expenditures	(32)	(3)	(5)	(69)	(40)
Transfers*	0	2	0	0	0
Ending Balance	\$1,090	\$1,110	\$1,115	\$1,048	\$1,008
Encumbrances	\$0	\$0	\$0	\$0	\$0

*In FY2008, the Department of Transportation incorrectly transferred an employee's vacation balance to DOD's Tsunami and Hurricane Preparedness Efforts account. In FY2015, DOD corrected the error by transferring the amount from its Tsunami and Hurricane Preparedness Efforts account into this fund.

This fund receives federal funds from the U.S. Department of Defense via the National Guard Bureau, a federal agency. This fund meets the criteria of a trust fund and continues to serve the purpose for which it was created. The purpose of the fund is to ensure that accrued credits and expenditures for vacation and sick leave of State employees working on federal projects under federal cooperative agreements are accounted for appropriately. Revenue comes from the Master Cooperative Agreement programs funded by the National Guard Bureau. Expenditures consist of payouts of unused vacation leave to employees under federal cooperative agreements as those employees retire or are terminated.

**Asset Forfeiture Trust
Account - Federal**

***Administratively
established***

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

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$130	\$126	\$126	\$123	\$123
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(4)	0	(3)	0	0
Transfers	0	0	0	0	0
Ending Balance	\$126	\$126	\$123	\$123	\$123
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund receives federal funds from the U.S. Department of Justice. This account continues to meet the criteria for a trust account and continues to serve the purpose for which it was created. The purpose of the account

is to receive a prorated share of funds generated from the sale of assets that were seized and auctioned off as a result of federal government drug enforcement operations in which the Hawai'i National Guard participated. Use of the money is restricted to programs aimed at reducing drug use.

FEMA – Major Disaster Trust Account

Section 127A-16, HRS

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

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$470	\$724	\$320	\$367	\$342
Revenues	254	281	76	0	0
Interest	0	0	0	0	0
Expenditures	0	(685)	(29)	(25)	0
Transfers	0	0	0	0	0
Ending Balance	\$724	\$320	\$367	\$342	\$342
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account continues to meet the criteria for a trust account and serves the purpose for which it was originally created. Created in 2010, the account is used to hold deposits of federal reimbursement moneys for disaster relief. Revenues come from federal reimbursement moneys for disaster relief received from the Federal Emergency Management Agency (FEMA) and any interest earned on those moneys. During a disaster, DOD's Civil Defense Division advances payments for disaster relief through the major disaster trust account, supplemented by the department's operating funds until moneys are reimbursed by FEMA.

Hawai'i State Veterans Cemetery Trust Fund

Administratively established

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

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$16	\$16	\$16	\$16	\$16
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	\$16	\$16	\$16	\$16	\$16
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. Created in 1991, the fund is used to receive and disburse operational fees related to interments and donations

from veterans' organizations and individuals, which are used for the upkeep and beautification of the Hawai'i State Veterans Cemetery (HSVC). Revenues come from donations from families and friends of deceased veterans. Expenditures consist of HSVC operating costs, including, but not limited to, interment costs, purchase of grave liners, and acquisition of items beneficial to the HSVC.

Juvenile Accountability Block Grant

Administratively established

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

	FY2014	FY2015	FY2016	FY2017	FY2018**
Beginning Balance	\$46*	\$46	\$46	\$46	\$46
Revenues	0	0	0	0	162
Interest	0	0	0	0	0
Expenditures	0	0	0	0	160
Transfers	0	0	0	0	0
Ending Balance	\$46	\$46	\$46	\$46	\$48
Encumbrances	\$0	\$0	\$0	\$0	\$3

* The Memorandum of Agreement between the Hawai'i State Department of Defense and the City and County of Honolulu, in support of the Juvenile Accountability Block Grant Program, ended in 2012 and there was no fund activity related to this program during the review period. The FY2014 beginning balance of \$46,066 is the remaining balance of federal funds for the program.

** All FY2018 revenues, expenditures, and encumbrances reflect Kokua 'Ohana Aloha program activity.

This fund received federal funds from the U.S. Department of Justice (DOJ). It is currently used to hold both federal and state funds. Although this fund meets the criteria for a trust fund, it no longer serves the purpose for which it was originally created. Created in 2011, this fund was established to support a Memorandum of Agreement (MOA) between DOD and the City and County of Honolulu's Department of Community Services (DCS) as part of the Juvenile Accountability Block Grant (JABG) program, funded by the Office of Juvenile Justice and Delinquency Prevention (OJJDP) of the DOJ. The JABG program provided federal funding to help states and communities strengthen their juvenile justice systems by implementing accountability-based reforms. Expenditures consisted of reimbursing DCS for costs associated with the MOA. In 2013, DOD stated that the account would be closed as the MOA term had ended. DOD attempted to return the remaining balance to OJJDP which declined to accept the unused funds. DOD does not know how to appropriately divest the fund of the remaining moneys given the refusal by DOJ. There were no revenues or expenditures related to the DCS MOA during the review period. The fund was inactive from FY2014 – FY2017, with a fund balance of \$46,066.

In FY2018, DOD used this inactive fund to receive moneys from the Hawai'i Department of Health (DOH) for the Kokua 'Ohana Aloha (KOA) program. KOA is a juvenile offender program run in partnership by the Hawai'i National Guard, DOH, and DOD that is funded by DOH. All FY2018 revenues, expenditures, and encumbrances were related to KOA. DOD used the fund for this purpose after their request for a KOA special fund was denied and they did not have an appropriate financial vehicle to accept the FY2018 funds transfer from DOH. In prior years, KOA funding was processed through the general appropriations process.

The fund should be closed because it no longer continues to serve the purpose and intent for which it was originally created, and it is currently used to handle transaction activity for a different program.

National Governors Association Grant

Administratively established

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

	FY2016	FY2017	FY2018
Beginning Balance	\$0	\$0	\$25
Revenues	0	64	0
Interest	0	0	0
Expenditures	0	(39)	(25)
Transfers	0	0	0
Ending Balance	\$0	\$25	\$0
Encumbrances	\$0	\$16	\$0

This fund received federal funds from the U.S. Department of Commerce via the National Governors Association (NGA), a bipartisan organization of the nation's governors. This administratively created trust fund was closed in FY2018 and the remaining balance was returned to the NGA. Created in FY2016, the fund was used to receive federal funds from the U.S. Department of Commerce, through a grant from the NGA, for participation in the NGA Policy Academy. Expenditures consisted of travel costs for the program manager to attend workshops and meetings relating to planning, researching, and identifying strategies for statewide implementation to enhance emergency communications interoperability.

**OHA Ceded Lands
Proceeds**

**Administratively
established**

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

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$0	\$0	\$0	\$0	\$0
Revenues	0	0	0	0	13
Interest	0	0	0	0	0
Expenditures	(2)	(1)	(1)	(3)	(2)
Transfers*	2	1	1	3	1
Ending Balance	\$0	\$0	\$0	\$0	\$12
Encumbrances	\$0	\$0	\$0	\$0	\$0

* Transfers from Security Deposits and Use Permits fund.

This account continues to meet the criteria for a trust account and continues to serve the purpose for which it was created. The purpose of this account is to collect and transfer moneys owed to the Office of Hawaiian Affairs (OHA) for ceded land revenue. Revenues are from the Fort Ruger 22nd Parking Lot Use Permit. In FY2014 – FY2017, all revenue (100 percent) from the use permit was deposited into the Security Deposits and Use Permits fund. Subsequently, 20 percent of the revenue was transferred from the Security Deposits and Use Permits fund into this account before being transferred to OHA as their share of ceded land revenue. In FY2018, all revenue (100 percent) from the use permit has been deposited directly into this account which no longer holds only OHA’s 20 percent share of ceded land revenue. Expenditures consist of parking lot related expenses, including moneys owed to OHA for use of ceded lands.

DOD has 26 facilities statewide that is available for public use including armory parking lots and gymnasiums. All 26 facilities are on ceded lands. According to DOD, the Fort Ruger 22nd Parking Lot Use Permit includes only 2 facilities for which DOD has been paying OHA its 20 percent share of ceded land revenue. DOD has not paid OHA its share of ceded land revenue from the use of any of its other facilities. DOD is reviewing a “facility use law” that may require it to pay all revenue from facility uses to OHA.

Security Deposits and Use Permits

Administratively established

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

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$282	\$340	\$916	\$978	\$1,091
Revenues	94	634**	115	166	87
Interest	0	0	0	0	0
Expenditures	(34)	(57)	(52)	(50)	(29)
Transfers*	(2)	(1)	(1)	(3)	(1)
Ending Balance	\$340	\$916	\$978	\$1,091	\$1,148
Encumbrances	\$0	\$2	\$4	\$4	\$17

*Transfers to Office of Hawaiian Affairs Ceded Lands Proceeds account.

**Includes \$455,603 of unused federal funds.

This fund receives funding from state sources. It is currently used to hold both state and federal funds. This fund meets the criteria of a trust fund and continues to serve the purpose for which it was created. The fund holds and tracks revenue and expenditures relating to permit usage for rentals of armories, training sites, parking, lodging, and energy savings reinvestment for DOD. Revenues come from fees collected for the utilization of armories, training sites, parking lots, and other DOD facilities. Expenditures are authorized only for the use by the facility that generated the revenue. Twenty percent of the Fort Ruger parking lot rental fees are transferred to the Office of Hawaiian Affairs Ceded Lands Proceeds trust account.

In FY2015, DOD transferred unused federal funds totaling \$455,603 into this trust fund until DOD can resolve the matter with the U.S. Treasury Department. According to DOD, these federal funds relate to federal grants as far back as 1981. DOD has attempted to return the funds to the federal government which will not accept the funds because the grant programs have been closed. DOD attempted to transfer the funds to DAGS which would not accept federal funds.

Temporary Deposits – Payroll Overpayment

Administratively established

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

	FY2014	FY2015	FY2016	FY2017	FY2018
Beginning Balance	\$0	\$0	\$0	\$0	\$0
Revenues	0	0	5	0	0
Interest	0	0	0	0	0
Expenditures	0	0	(5)	0	0
Transfers	0	0	0	0	0
Ending Balance	\$0	\$0	\$0	\$0	\$0
Encumbrances	\$0	\$0	\$0	\$0	\$0

This account continues to meet the criteria for a trust account and serves the purpose for which it was originally created. The account is used for reimbursements collected from employees and to track money owed to the Department of Accounting and General Services (DAGS) as a result of payroll overpayments. Revenues come from reimbursement payments from employees who have been overpaid through the payroll system. Expenditures consist of reimbursement to DAGS and/or any entity entitled to reimbursements resulting from payroll overpayments.

Tsunami and Hurricane Preparedness Efforts

Administratively established

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

	FY2014	FY2015**	FY2016	FY2017	FY2018
Beginning Balance	\$286	\$197	\$162	\$162	\$162
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	(89)	(33)	0	0	(45)
Transfers*	0	(2)	0	0	0
Ending Balance	\$197	\$162	\$162	\$162	\$117
Encumbrances	\$161	\$128	\$70	\$70	\$25

*Cash transfer in FY2015 to correct a funds transfer made by DOD in FY2008 that should have been credited to DOD's Accumulated Vacation and Sick Leave fund.

**The FY2015 encumbrances of \$128,000 included \$58,000 of expenses that were not included in the expenditures of \$33,000. We did not audit DOD's financial data, but the department has informed us that the FY2015 expenditures and encumbrances were reported inaccurately and, because of the error, the data for FY2016 – FY2018 are also in error.

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

administratively established pursuant to Act 5, SLH 2005. In Act 5, the Legislature found that action was needed for natural disaster preparedness, including tsunami and hurricane preparedness efforts. In FY2006 and FY2007, the fund was appropriated a total of \$4 million out of the Hurricane Reserve Trust Fund. Moneys were to be used for 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. The moneys were also to be used for developing statewide residential safe room design standards, providing around-the-clock alert staff for the Civil Defense Division of DOD and expanding public education campaigns emphasizing the need for tsunami and hurricane preparedness. Expenditures consist of payments to vendors, including contractors, architects, and engineers.

Chapter 3

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

As shown in Exhibit 3.1, DOD had non-general funds with balances totaling \$0 and administratively created non-general funds with balances totaling over \$2.5 million that were not reported to the 2018 Legislature as required by Sections 37-47 and 37-52.5, HRS, respectively.

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

Fund Name	Fund Type	HRS 37-47 (Non- General)	FY2017 Ending Balance (rounded)	HRS 37- 52.5 (Admin Created)	FY2017 Ending Balance (rounded)
Accumulated Vacation and Sick Leave - Federal Projects	Trust Fund			✓	\$1,048,000
Asset Forfeiture Trust Account - Federal	Trust Account			✓	123,000
Hawai'i State Veterans Cemetery Trust Fund	Trust Fund			✓	16,000
Juvenile Accountability Block Grant	Trust Fund			✓	46,000
National Governors Association Grant*	Trust Fund			✓	25,000
OHA Ceded Lands Proceeds	Trust Account			✓	0
Security Deposits Use Permits	Trust Fund			✓	1,091,000
Temporary Deposits Payroll Overpayment	Trust Account	✓	\$0	✓	0
Tsunami and Hurricane Preparedness Efforts	Trust Fund			✓	162,000
Total			\$0		\$2,511,000

*Fund closed during review period.

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 DOD on September 18, 2018.
The Department of Defense agreed with our review of its funds but will
not be submitting written comments.

Auditor's Summary

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

Report No. 18-11

One trust fund did not meet criteria

OUR REVIEW OF SIX TRUST FUNDS and four trust accounts of the Department of Defense (DOD) found one trust 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 second review of DOD's special funds, revolving funds, trust funds, and trust accounts.

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 DOD 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

DOD AGREED with our review of its funds and will take appropriate action to close the trust fund that did not meet criteria. DOD 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.

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.