

OVERVIEW

Audit of the Deposit Beverage Container Program

Report No. 05-09, November 2005

Summary

Our audit of the State's "bottle bill" program found that despite more than a two-year lead time to prepare for consumer redemptions of beverage container deposits, the Department of Health was not ready to properly and efficiently return consumers' deposits. Staff were hired only from October 2004 and were unable to resolve potential problems before January 1, 2005—when consumers could start redeeming their accumulated bottles. Despite collecting over \$39 million as of June 30, 2005, the department lacks an auditable financial accounting system and cannot ensure that all revenues and payments are properly accounted for. We conducted this audit pursuant to Section 342G-107, Hawai'i Revised Statutes (HRS), which requires us to conduct management and financial audits for FY2004-05 and FY2005-06.

We redeemed containers at 33 redemption centers on O'ahu, Hawai'i, Maui, and Kaua'i and experienced first-hand the problems and frustrations faced by consumers. The process was confusing and our observations confirm many of the public complaints—centers opening late, closing early, or not opening at all, often because they run out of money or storage capacity; inconvenient locations and hours of operation; long wait times; inconsistency; poor customer service; and general confusion about the redemption process. Many view the program as an attempt to impose another state tax by forcing consumers to pay the deposit but making it difficult to obtain the refund. Furthermore, prior to the enactment of the bottle bill, recyclers paid consumers the scrap value for their containers. Currently, only a few redemption centers pay scrap value in addition to the refund, because there is no requirement to do so.

Although the department has been working with redemption center operators to resolve the problems, the efforts have produced negligible results. The department hesitated to enforce penalties in part because of the limited number of companies certified to operate the centers.

The over \$39 million in payments from distributors, importers, and manufacturers as of June 30, 2005 consists of both the five cent deposit refund per container and one-half cent container fee, which increased to one cent on October 1, 2004. Distributors, importers, and manufacturers are required to submit a department form with their payment, but the department does not verify that either the data on these forms or the payments received are correct. Although we attempted to audit the records of selected distributors, we were unable to obtain enough documentation to attest to the accuracy of the numbers submitted and the amounts of the resulting payments. Consequently, the department cannot verify that distributors are paying what they owe.



From January to June 2005, the first six months of the program, the department has paid over \$10 million to redemption centers—approximately \$8 million for reimbursements and \$2 million for handling fees. These payments are being made based on numbers submitted by the redemption centers and are not verified by the department because it has not developed procedures to do so. Potentially the department could be paying for nonexistent and unlabeled containers.

We engaged the certified public accounting firm of Shigemura and Sakamaki CPAs, Inc., to conduct the financial audit of the program. However, the contractor determined that the department had not established a proper accounting system and could not prepare any financial statements for the program. Therefore, our consultant was unable to complete the financial audit of the program.

Although individual staff initially assigned to implement the program labored under adverse conditions, they were further hampered by the administration's attempts to repeal the law and its emphasis on recovering deposits instead of a sufficient environmental, recycling message.

Recommendations and Response

Our recommendations included the governor's assistance in the Department of Health's implementation of the program according to Section 342G, Part VIII, HRS. We recommended that the department verify data reported by redemption and recycling centers and evaluate whether handling fees are sufficient to sustain acceptable levels of service. Regarding financial controls, we included recommendations that the Department of Health provide fiscal guidance to and oversight of the program, properly review and maintain accounting records, and have proper cut-off dates for transactions.

The Department of Health strongly disagreed with some of the conclusions and claims that it can, and has, accounted for every penny in the program—reflecting a clear misunderstanding of the seriousness of the issue regarding its financial controls. Ironically, despite the department's objections to several of our conclusions, it responded that it has drafted many of the procedures that we recommended, is seeking to hire more accounting staff, and will address the specific criticisms in the audit.

The governor's senior policy advisor opted to provide a response to our audit, and alleged that there were a number of inaccuracies and oversights in the draft. The advisor asked that we spend additional time talking to the department. We disagree. Our staff spent a great deal of time meeting with department staff, often multiple times, and we are confident of our understanding of the program and the events that occurred.

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