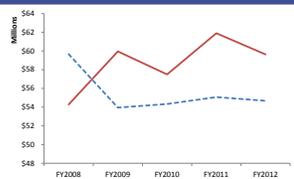




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Over the past four fiscal years, DBC Program Fund expenditures have been rising while revenues remain flat.

# Management and Financial Audit of the Deposit Beverage Container Program, June 30, 2012

Report No. 13-08, November 2013

## *Mismanagement of the Deposit Beverage Container Program puts its continued operation at risk*

### **Unaddressed program flaws result in millions of dollars in overpayments and undermine financial sustainability**

This is our fourth audit of the Deposit Beverage Container (DBC) Program. As in our previous audits, we found that the program relies on self-reported data from distributors who may be fraudulently or erroneously under-reporting beverage containers sold or distributed, and certified redemption centers that may be fraudulently or erroneously over-reporting beverage containers redeemed. This flaw, coupled with an absence of a detailed audit function, exposes the program to abuse and risk of fraud, which threaten the financial sustainability of the program. For example, from FY2010 through FY2012, the DBC Program paid \$6.2 million in deposit refunds for almost 7.5 million pounds of materials that cannot be accounted for. As a result of these and other inefficiencies, over the past three fiscal years, the program has paid out \$28 million more in handling fees than it has collected in container fees, contributing to a steady increase in fund expenditures.

The Department of Health, which administers the DBC Program, has been aware of these systemic weaknesses for some time. As early as 2006 it proposed switching to a "back-end" payment system, which would address many of these issues. Paying redemption centers on the back-end means reimbursing them for the number of containers *shipped* to end-user recyclers instead of the number that they *claim* to receive from customers. (Under the current system, these claims are not validated.) Implementing such a change would require amending the program's administrative rules. We found that the program's deputy attorney general prepared draft amendments in June 2012; but, according to department officials, as of June 2013, moving to a back-end payment system is still under consideration.

### **Inattention to basic management functions exacerbates program's inability to prevent fraud and abuse**

The DBC Program lacks adequate management to effectively and efficiently guide its enforcement functions and payment process. For instance, management has not addressed inappropriate position descriptions for program inspectors, in place since the program's inception more than a decade ago. This misalignment of qualifications with actual job duties has led to a high turnover rate of program inspectors, who, between FY2008 and FY2012, had an average length of employment of only 16 months. Currently, all four of the program's inspector positions are vacant, with one filled by an 89-day hire on an interim basis. In addition, management relies on a single person to issue and approve more than \$54 million in payments to redemption centers statewide. The program manager recognizes the risks associated with this assignment of duties but has only recently begun to approve requests for additional accounting support. When we asked why he does not perform various management functions, the program manager stated that he lacked the time to do so. He said that he serves as a "fire fighter" for the program and spends his time fixing problems.

### **Agency Response**

In its response to our draft report, the department objected to our finding that "Inattention to basic management functions exacerbates program's inability to prevent fraud and abuse." It expressed appreciation and support for the current program manager, who is responsible for the day-to-day management of the program, describing him as a valued and hard-working employee. However, the department did not provide any additional information to dispute this or any other of our findings. The department did provide specific comments on the 13 recommendations we made in the draft report. Judging by the recent actions undertaken by management as described in its response, the department appears to be in general agreement with our conclusions and recommendations.