Auditor’s Summary

Financial and Program Audit of the Department of Health’s Deposit Beverage Container Program, June 30, 2024

Report No. 25-08

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Section 342G-107, Hawaii Revised Statutes (HRS), requires the Auditor to conduct a management and financial audit of the Department of Health’s (DOH) Deposit Beverage Container Program (Program) in even-numbered fiscal years, after the initial audit for the fiscal year ended June 30, 2005. We contracted KMH LLP, a certified public accounting firm, to conduct this financial and program audit for the fiscal year ended June 30, 2024. This is the Auditor’s tenth review of the Program.

We found that DOH still has made no progress on implementing the prior recommendations, including those codified by the Legislature in Section 342G-121.5, HRS.

THE LEGISLATURE ESTABLISHED the Deposit Beverage Container Program (Program) in 2002 to increase recycling of specific types of beverage containers, reduce litter, and provide a connection between beverage container manufacturing decisions and Program management. The Deposit Beverage Container Deposit Special Fund (Special Fund) was created to hold fees, deposits, and accrued interest – moneys that are used to pay deposit beverage container refunds and handling fees and Program-related expenses.

Review of Prior Findings

Our initial review, issued in 2005, found DOH’s reliance on self-reported numbers from distributors and certified redemption centers exposed the Program to possible fraud and abuse. Six subsequent audits issued between 2008 and 2018 found those initial findings remained relevant; the department had taken no meaningful action to address the chronic issues. Specifically, we have pointed out that distributors and redemption centers have financial incentive to under- or over-report the amounts that the distributors must pay into the Special Fund and amounts that the redemption centers may claim for reimbursement from the Special Fund. For example, in 2015 we reported that a distributor, Whole Foods Market, Inc., had substantially underpaid the department for years by depositing \$0.06 per *case* of beverages rather than \$0.06 for each individual container. In 2018, auditors identified two instances of actual fraud at a redemption center by comparing receipts received for redeeming containers against the cash receipt log submitted to DOH to support the center's claim for reimbursement; the amounts the redemption center claimed – and DOH reimbursed – were significantly higher than the auditors had received for redeeming containers. DOH took no action against the redemption center and reimbursed the inflated amounts.

In 2021, instead of repeating the same, unaddressed findings, we adopted a new approach to examine *why* DOH had not taken meaningful action to address chronic issues by implementing controls or making other changes. We found the Program viewed our biennial audits as a replacement for internal controls and expected the Auditor to review records and identify errors in the amounts received from distributors or claimed by redemption centers. The following year, the Legislature passed Act 12, Session Laws of Hawai‘i 2022, codified as Section 342G-121.5, HRS, to compel DOH to develop and implement procedures to verify the accuracy and completeness of the data reported by beverage distributors and redemption centers, as we repeatedly recommended.

Given the relatively short period between the passage of Act 12 and our 2023 review, as well as DOH's representation that it was in the process of implementing changes, we switched our approach again in 2023. We asked DOH to submit the required financial information and provide an update on steps the Program had taken to address the 2021 audit findings. This report again assessed the implementation of those recommendations, as well as DOH's compliance with Section 342G-121.5, HRS.

What We Found in 2024

In 2024, we examined relevant documents and records, interviewed Program personnel, and evaluated whether DOH's actions addressed our 2021 recommendations. We found DOH still has made no progress on implementing prior recommendations, including those codified by the Legislature in Section 342G-121.5, HRS. Specifically, we found DOH has not implemented any of our eight recommendations, including one the department did not agree with and did not intend to implement. Since the requirement to implement those recommendations was codified in HRS, DOH is not in compliance with its legal mandate.

Financial highlights

For the fiscal year ended June 30, 2024, the special fund reported total revenues of $33.57 million and total expenditures of $23.03 million, resulting in a change of fund balance of $10.54 million. Total revenues consisted of (1) deposit beverage container fees of $10.37 million, (2) unredeemed deposits of $20.81 million, and (3) investment income of $2.38 million, and (4) nonimposed employee fringe benefits of $7,390. Total expenditures consisted of (1) handling and redemption fees of $21.01 million, (2) operating expenditures of $2 million, and (3) administrative expenditures of $28,587.

As of June 30, 2024, total assets were $85.79 million and total liabilities were $7.93 million. Total assets were comprised of (1) cash and cash equivalents of $76.33 million, (2) accounts receivable of $9.24 million, and (3) interest receivable of $226,842. Total liabilities were comprised of (1) vouchers and contracts payable of $4.37 million; (2) accrued wages and employee benefits of $124,548; and (3) beverage container deposits of $3.43 million.

Auditor's Opinion

The special fund received an unmodified opinion that its financial statements presented fairly, in all material respects, the financial position of the fund as of June 30, 2024, in accordance with generally accepted accounting principles.

Findings

One material weakness was reported – some vouchers payable were not recorded, resulting in an overstated fund balance. Management accepted a proposed adjustment of approximately $733,000 to increase vouchers payable and expenditures.

One significant deficiency was also reported, relating to over-reliance on third party certifications. As we found in prior audits, the Program continued to rely on self-reporting from beverage distributors and redemption centers. This overreliance may result in underpayments on deposits and related container payments DOH receives to administer the Program, overpayments of deposit refunds and handling fees to redemption centers, and an overstated redemption rate. An overstated redemption rate could result in a misstatement in DOH's financial statements, as well as higher fees for consumers.

Link to the complete report:

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https://files.hawaii.gov/auditor/Reports/2025/25-08.pdf