Audit of the Department of Health's Glass Advance Disposal Fee Program

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

Report No. 14-16
December 2014

THE AUDITOR
STATE OF HAWAI‘I

Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawai‘i State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. Financial audits attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.

2. Management audits, which are also referred to as performance audits, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called program audits, when they focus on whether programs are attaining the objectives and results expected of them, and operations audits, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.

3. Sunset evaluations evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.

4. Sunrise analyses are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.

5. Health insurance analyses examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.

6. Analyses of proposed special funds and existing trust and revolving funds determine if proposals to establish these funds are existing funds meet legislative criteria.

7. Procurement compliance audits and other procurement-related monitoring assist the Legislature in overseeing government procurement practices.

8. Fiscal accountability reports analyze expenditures by the state Department of Education in various areas.

9. Special studies respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawai‘i’s laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.

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Report No. 14-16, December 2014

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State of Hawai'i

"...the State's role under the law is basically limited to collecting funds and then pass [sic] them along to the counties."

— Deputy Director of Environmental Health, Department of Health

Recommendations

Responses

Prior Studies

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Health department is not committed to administering the non-deposit glass fee

Senate Concurrent Resolution No. 74, Senate Draft 1, House Draft 1, of the 2014 Legislature asked the Auditor to perform an audit of the Department of Health's glass advance disposal fee (ADF) program. It also requested that we examine local alternatives to shipping glass containers out of state for recycling.

Law lacks guidance on state solid waste disposal goals, and the department has not sought corrective actions

In this, the first of two reports, we found the state's solid waste disposal goals are outdated and the glass ADF program lacks performance goals that are tied to a clear mission. As a result, it is unclear what the glass ADF program is supposed to accomplish and how to measure its progress. The department has contributed to these ambiguities by not establishing ADF program goals, or adopting additional ADF program guidance through rule-making—basic administrative responsibilities. Without a clear baseline from which to judge the ADF program's performance, the Legislature cannot make an accurate assessment of the appropriateness of the ADF rate.

By law, the ADF is to provide funding for county glass recovery programs and contribute to the achievement of the State's solid waste reduction goals. However, the law is unclear and outdated, and administrative rules to clarify this discrepancy are missing. The basis for establishing the original ADF rate is unknown; the original statutory goals for the ADF program were later removed from statute and the department has not adopted administrative rules to fill the gap. To make informed decisions about whether to amend the glass ADF law or adjust the ADF rate, the Legislature needs accurate and complete information about the glass ADF program's performance. To properly plan and budget for their annual glass recycling programs, counties need accurate and consistent estimates of their annual ADF allocations. The department has not provided either of these things.

Department administers the glass ADF as a pass-through fund

We found the department views its role for the glass ADF as limited to collecting funds and passing them along to counties. This approach may explain a number of shortcomings we found in the department's administration of the glass ADF, particularly regarding overseeing costs and compliance with state laws. The department's administration of the glass ADF program is lax: it does not verify costs, was unaware of the use of some of its ADF funds, allowed counties to overspend their allocations, and has not dedicated resources to administering the program. The department also circumvented key ADF laws by allowing counties to retain unspent ADF funds, and is providing funds to one county despite its having no buyback program as required by law.

The department does not verify or require supporting documentation for the costs claimed by counties and recyclers, so is unable to determine why incentive rates to recyclers vary from county to county. Lack of documentation identifying and verifying costs also limits the department's ability to assess whether the ADF rate adequately covers costs for county glass recycling programs or whether the rate should be adjusted. The department's perspective that it merely collects and distributes ADF funds to the counties does not exempt it from complying with state laws governing the glass ADF. The department knowingly did not enforce the ADF law and, in fact, took actions to avoid compliance with it. Some counties were permitted to use unspent ADF moneys instead of following the law by returning unused funds to the State. The department also changed its method of payment to the counties to avoid compliance with this statutory provision. The department has also been providing ADF funds to Kaua'i County despite the fact that it does not have a buyback program.

Agency response

The Department of Health suggested minor technical changes to our report but generally agreed with our findings and recommendations.

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Submitted by

THE AUDITOR
STATE OF HAWAI‘I

Report No. 14-16
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Foreword

This is a report on the examination and audit of the Department of Health's glass advance disposal fee program, including the use of fee revenue by counties and the accuracy of payments made to recyclers from fee revenues. The audit was requested under Senate Concurrent Resolution No. 74, Senate Draft 1, House Draft 1, of the 2014 Legislature. The resolution also requested an examination of local alternatives to shipping glass containers out of state for recycling, and whether these alternatives would be environmentally and economically prudent. The examination's findings will be reported under separate cover.

We wish to express our appreciation for the cooperation and assistance extended to us by the Department of Health, the Office of Solid Waste Management, recycling staff for the counties of Honolulu, Maui, Hawai‘i, and Kaua‘i, and others whom we contacted during the course of our audit.

Jan K. Yamane
Acting Auditor

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Chapter 1
Introduction

Senate Concurrent Resolution No. 74, Senate Draft 1, House Draft 1 (SCR No. 74, SD 1, HD 1), of the 2014 Legislature asked the Auditor to conduct an audit of the Department of Health's glass advance disposal fee (ADF) program. The Legislature noted that the cost of recycling non-deposit glass containers exceeds the amount of revenue collected by the State through the ADF; and although counties receive approximately 90 percent of that revenue in order to pay glass recyclers, they commonly exhaust those funds before the end of each fiscal year. Before considering raising the advance disposal fee for glass containers, the Legislature asked the Auditor to examine how state funds are used by the counties. The Legislature also asked the Auditor to include an examination of local alternatives to shipping glass containers out of state and whether such programs would be environmentally and economically prudent.

Background

The glass advance disposal fee was established in 1994 and is codified under Section 342G-82, Hawai‘i Revised Statutes (HRS), part of the *Glass Container Recovery* law. In enacting the law, the Legislature found that Hawai‘i's energy resources and physical environment must be managed and protected to ensure the health, safety, and welfare of its citizens and to preserve its limited natural resources for future generations. The purpose of the fee is to encourage glass recycling and for glass container importers to pay an advance disposal fee to be used to fund county glass recovery programs. The law expanded statewide a waste diversion program that had already been implemented on O‘ahu in 1989 by the City and County of Honolulu.

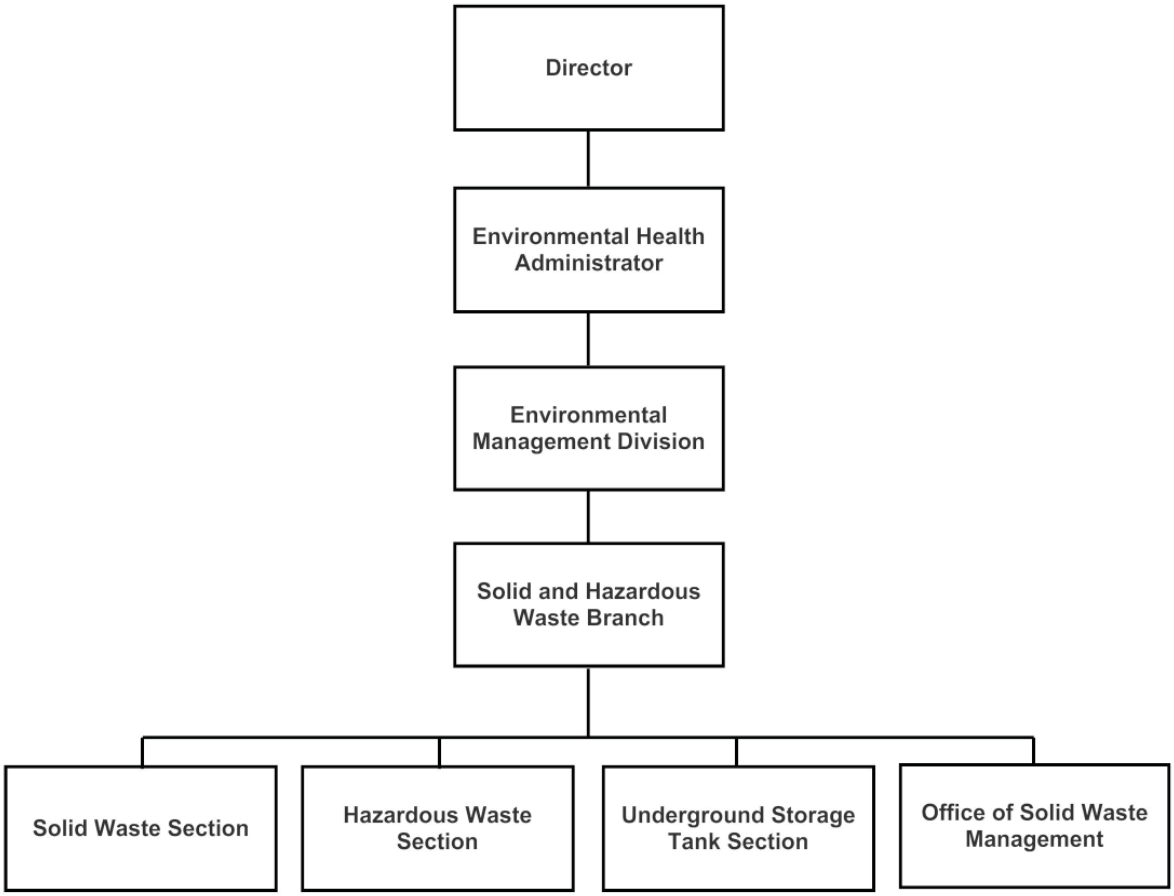
Organizational structure of the glass ADF program

The glass ADF program is administered by the Department of Health's Office of Solid Waste Management. The department is headed by a director and has three administrations that oversee ten divisions. Relevantly, the **Environmental Health Administration** administers statewide programs concerned with controlling air pollution, recreational and navigable water pollution, solid and hazardous waste, and drinking water purity. It also administers the financing, construction, operation, and maintenance of public wastewater treatment works and develops administrative rules, regulations, policies, and procedures for the administration. The **Environmental Management Division** implements and maintains statewide programs including Air Pollution Control, Water Pollution Control, and Solid Waste Management, and oversees various

branches. Among them, the **Solid and Hazardous Waste Branch** is responsible for implementing and maintaining statewide regulatory programs for solid waste, hazardous waste, and underground storage tanks under the federal *Resource Conservation and Recovery Act*.

The **Office of Solid Waste Management**, which administers the glass ADF, is primarily responsible for assessing the feasibility of disposal fees as funding sources for waste management activities; developing and coordinating a state recycling program; and coordinating with the Department of Business, Economic Development and Tourism to develop a state program to promote local use of recycled materials in manufacturing. It administers both the glass ADF and the Deposit Beverage Container (DBC) Program. The office is headed by a state solid waste management coordinator, who is assisted by a recycling coordinator. Exhibit 1.1 shows the relevant organizational structure of the Department of Health.

Exhibit 1.1
Department of Health Organizational Chart



Source: Department of Health and Office of the Auditor

Glass advance disposal fee

Under the law, glass container importers must register with the Department of Health, maintain records reflecting the type and quantity of each type of glass container imported, and pay a fee of 1.5¢ per glass container. "Glass containers" are not defined in statute but should not be confused with *deposit glass beverage containers*, which under Section 342G-81, HRS, are defined as individual, separate, sealed, glass containers used for holding less than or equal to 68 fluid ounces; or empty, individual, separate glass containers to be filled with less than or equal to 68 fluid ounces and sealed in Hawai‘i. Importers must pay the ADF quarterly or annually based on inventory reports. Those who import or manufacture fewer than 5,000 non-deposit beverage glass containers per year are exempt from the ADF.

Glass advance disposal fee account

Pursuant to Section 342G-84, HRS, revenues from the glass ADF are deposited into a special account within the Environmental Management Special Fund. The fund houses separate accounts for the ADF program, a tire surcharge, and a solid waste tip fee. ADF revenues are collected by the department,which may use up to 10 percent of annual glass ADF revenue for administrative and educational purposes. Based on each county's population, the department distributes the remaining 90 percent of annual ADF revenues to counties to fund their glass recovery programs. Counties may also use ADF moneys to pay for collecting and processing glass containers and to subsidize transporting processed glass material to off-island markets. Unused ADF allocations must be returned to the state's Environmental Management Special Fund at the end of each annual contract period.

Annual revenue for the glass ADF has been fairly consistent for the past six fiscal years. Exhibit 1.2 shows that from FY2008 to FY2013, total revenue ranged from roughly $622,000 to $803,000.

Exhibit 1.2
Glass Advance Disposal Fee Revenue (Cash Basis), FY2008–FY2013

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
Total ADF revenue	$622,215	$731,115	$701,607	$761,535	$767,375	$803,923

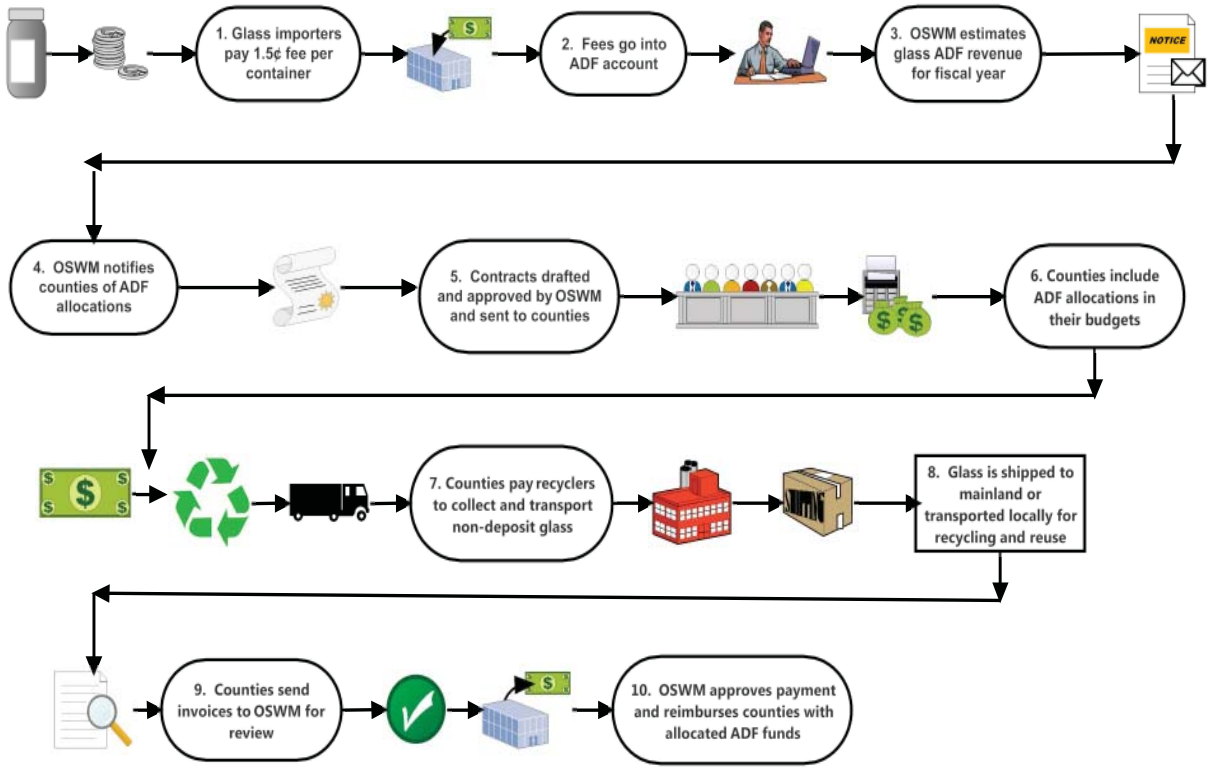
Source: Office of Solid Waste Management

By comparison, the Deposit Beverage Container Program, which is also administered by the Office of Solid Waste Management, collected more than $54 million in FY2012. Thus, glass ADF revenue equals about 1 percent of DBC's.

Process for collecting and distributing glass ADF funds

After glass importers pay their quarterly or annual advance deposit fees to the department, the fees are deposited into the ADF account within the Environmental Management Special Fund. Approximately two-thirds of the way through each fiscal year, around January or February, the Office of Solid Waste Management estimates the amount of ADF revenue it expects to collect for the remaining fiscal year based on revenues to date. Once it has made its projection, the office executes a contract with each county for its glass recycling program specifying the anticipated allocation amount. Counties pay recyclers (via contract or verbal agreement), who collect and transport non-deposit glass either to the mainland for recycling or reuse, or somewhere locally for reuse. Counties submit recyclers' invoices, which they have already paid, to the Office of Solid Waste Management for reimbursement. Exhibit 1.3 illustrates the process for collecting and distributing glass ADF funds.

Exhibit 1.3
Glass Advance Disposal Fee Process



OSWM: Office of Solid Waste Management
ADF: Advance Disposal Fee

Source: Office of Solid Waste Management and Office of the Auditor

Integrated solid waste management plans

Part III of the *Integrated Solid Waste Management* law, Sections 342G-21 to -31, HRS, deals with integrated solid waste planning. It requires each county to have its own integrated solid waste management plan, which must address, among other things, source reduction, recycling, and bioconversion. The plans must be reviewed and approved by the Office of Solid Waste Management, which must then revise the State's own solid waste plan. To revise the plan, the office must convene a task force to review the counties' plans, update the previous plan, and address other statewide issues regarding integrated solid waste management.

County glass recovery programs

State law requires each county to have a glass recovery program, which must include some form of glass incentive or "buyback" program to encourage public and private collectors' participation. County programs may also use glass ADF moneys to fund the collection and processing of glass containers either through existing county agencies or external contracts for subsidizing the transportation of processed material to off-island markets, the development of collection facilities, additional research and development programs, and public education and awareness programs focused on glass recovery.

Prior Reports

We have issued three reports related to the Department of Health's financial activities, but none specifically about the glass ADF program. Our Report Nos. 01-12, *Update of the 1992 Summary of Special and Revolving Funds* (2001), and 12-04, *Study of Non-general Funds to the General Fund* (2012), include reviews of the Environmental Management Special Fund but do not have any findings regarding the glass ADF program. Our Report No. 13-08, *Management and Financial Audit of the Deposit Beverage Container Program* (2013), provided brief historical background on the ADF program but did not comment on the program's operations or management. The department's financial and compliance audit reports for fiscal years 2005–2013 provide data on glass ADF revenues but do not contain program findings.

Objectives of the Audit

1. Analyze the Department of Health's administration of the glass advance disposal fee.

2. Determine whether the department's accounting and reporting practices of glass ADF revenues and expenditures comply with applicable laws, rules, policies, and procedures and ensure accuracy and transparency.

3. Examine local alternatives to shipping glass containers out of the state for recycling and whether they would be environmentally and economically prudent.

4. Make recommendations as appropriate.

Scope and Methodology

SCR No. 74, SD 1, HD 1 (2014), asked us to conduct an audit of the Department of Health's glass advance disposal fee program. The resolution also asked us to examine local alternatives to shipping glass containers out of the state for recycling, such as local conversion of glass to sand or the use of glass as landfill cover or in roadway asphalt, and whether these programs would be environmentally and economically prudent alternatives. Because our office does not have expertise in environmental issues, we contracted with Oceanit Laboratories, Incorporated, to conduct that portion of the audit. Oceanit's findings will be reported under separate cover.

In conducting our audit, we interviewed relevant Department of Health and county agency personnel. We examined operating plans, policies, procedures, reports, and other pertinent documents and records to assess the department's effectiveness and compliance with applicable laws. We also reviewed management controls governing financial transactions and accounting.

Our audit was performed between July 2014 and October 2014 in accordance with the Office of the Auditor's *Manual of Guides* and generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Chapter 2

Health Department Is Not Committed to Administering the Non-Deposit Glass Fee

The Department of Health is required to administer the *Hawai'i Integrated Solid Waste Management Act*, including the advance disposal fee (ADF) for non-deposit glass. However, we found the department views itself as a pass-through agency whose role is limited to collecting and distributing ADF funds to the counties. The department has not verified costs or ensured the ADF program has adequate administrative support. This lack of commitment prevents the department from providing a clear picture of the program's costs and performance, a necessity when assessing the appropriateness of the fee. Further, there is no clear guidance, either in statute or administrative rules or procedures, as to what the glass ADF is supposed to achieve. Until these issues are addressed, the glass ADF program will likely be viewed simply as an appendage to the larger Deposit Beverage Container Program.

Summary of Findings

1. The law lacks guidance on state solid waste disposal goals, which the Department of Health has not sought to mitigate.

2. The department administers the glass advance disposal fee as a pass-through fund.

Law Lacks Guidance on State Solid Waste Disposal Goals, and the Department Has Not Sought Corrective Actions

The state's solid waste disposal goals are outdated and the glass ADF program lacks performance goals that are tied to a clear mission. As a result, it is unclear what the glass ADF program is supposed to accomplish and how to measure its progress. The department has contributed to these ambiguities by not establishing ADF program goals or adopting additional ADF program guidance through rule-making—basic administrative responsibilities. Without a clear baseline from which to judge the ADF program's performance, the Legislature cannot make an accurate assessment of the appropriateness of the ADF rate.

Statutory and administrative guidance on ADF program goals is missing

By law, the ADF is to provide funding for county glass recovery programs and contribute to achieving the State's solid waste reduction goals. However, we found that the law is unclear and outdated, and that administrative rules to clarify this discrepancy are missing, both of which hinder the State's ability to assess the ADF's performance and whether it is adequately fulfilling its function. The basis for establishing the original ADF rate is unknown; the original statutory goals for the ADF program were later removed from statute and the department has not adopted administrative rules to fill the gap. Therefore, progress towards achieving the state's solid waste disposal goals, which includes the ADF program, has not been measured.

Performance measurement is a critical element of accountability for public resources; it shows what was achieved and provides a basis for determining whether the public is receiving an acceptable benefit. A comprehensive and balanced set of performance measures should compare actual performance with expected results. Performance measures also should include performance targets that show what past performance has been and what is expected in the future.

Until proper guidance is provided, lawmakers cannot make a well-informed decision on whether the ADF rate needs adjustment. If the mission of the glass ADF program is to achieve the state waste disposal goals established under the *Integrated Solid Waste Management* law, then its progress cannot be measured until state goals are updated. However, if the success of the ADF is to be based on glass recovery goals—which currently do not exist—the department could establish such goals through rule-making.

Basis for the glass advance disposal fee rate is unknown

The act that established the glass container recovery law was modeled after the City and County of Honolulu's recycling program established in 1989. The ADF rate of 1.5¢ per glass container is set in statute; however, neither the Department of Health's Office of Solid Waste Management nor the City's Department of Environmental Services knows how that rate was calculated. Furthermore, the ordinance that established the City's glass container law, initially set at 1¢ per container, did not record the methodology or reasoning for the fee. As a result, we could not determine what factors were considered when the ADF rate was established or what factors trigger consideration of a rate adjustment.

Original glass recovery program goals were removed from statute, and department has not adopted administrative rules to fill the gap

The 1994 act that established the glass container recovery law also contained goals of a 25 percent glass recovery rate by the end of 1996; 50 percent by the end of 1998; and thereafter, the maximum recovery rate practicable. The ADF rate was tied to achievement of these recycling goals. However, when the Deposit Beverage Container (DBC) Program was established in 2002, the Legislature simultaneously removed the goals for glass recovery, leaving a gap in statutory guidance for the ADF program. Without specified goals, the department cannot measure whether the ADF is meeting the Legislature's intentions for the program.

Nevertheless, the department is empowered by law to establish state goals for specific commodities and could have adopted administrative rules for the glass ADF program, which would have alleviated some of this problem; yet the department has not adopted any such rules. The purpose of administrative rules is to implement or interpret statutory provisions and establish operating procedures for state agencies. The law is clear that the department is responsible for administering the glass ADF program. The department's responsibilities include collecting and allocating ADF funds, registering glass importers, keeping records and quarterly inventory reports, and reviewing county integrated solid waste management plans, which must be approved by the department before counties receive their ADF funds. The department could have implemented and clarified how it intends to carry out these responsibilities through administrative rules. However, the department told us it has not proposed any rules for the glass ADF program because it views its statutory role as limited to collecting ADF funds and passing them along to the counties.

State's solid waste disposal goals are also outdated

Not only is the law now silent on specific goals for the glass ADF, it is also outdated regarding more general solid waste disposal goals for the state. In the absence of program-specific goals, the glass ADF is also unable to rely on more general solid waste goals as a starting point from which to measure its progress.

In 1991, the Legislature expressed that the State's goal is to reduce its solid waste stream prior to disposal—through source reduction, recycling, and bioconversion[1]—by 25 percent by January 1, 1995, and 50 percent by January 1, 2000. We found that not only did the State not

[1] *Bioconversion* means processing the organic fraction of a waste stream through biological or chemical means to perform composting or generating products.

meet these goals, but the goals are now nearly 15 years old. Exhibit 2.1 shows the State's solid waste reduction goals and actual diversion rates for FY1994 (the earliest year for which data were available), FY1995, FY2000, and FY2011 (the most recent year for which data were available).

Exhibit 2.1
State Solid Waste Reduction Goals and Diversion Rates, FY1994–FY2011

Fiscal Year	State Solid Waste Reduction Goal	State Solid Waste Diversion Rate	Goal achieved
1994	--	17%	N/A
1995	25%	20%	No
2000	50%	20%	No
2011	--	35%	N/A

Source: Office of Solid Waste Management annual reports

Although the State's solid waste diversion rate appears to be rising, in the absence of any specified goals it is impossible to determine whether the rate is appropriate. Furthermore, we found that in the absence of articulated goals, from 2008 to 2013 the department chose to report on Hawai'i's solid waste diversion progress by comparing it to the federal Environment Protection Agency's (EPA) 2004 national recycling goals. However, those goals no longer exist—the EPA informed us it has not established a national goal for waste diversion rates or recycling rates "for some time," and the EPA's current strategic plan does not include any national recycling or waste diversion goals. Regardless, we did not find any reference in state law that connects Hawai'i's waste reduction goals to the EPA's or any other federal agency's goals.

In the absence of even general solid waste goals—never mind specific glass recovery goals—the ADF program has been left adrift with no baseline recovery rate or target recovery goals against which to measure its progress and success.

Department has not accurately reported on the glass ADF's performance, and its methodology for allocating revenues to counties causes extreme fluctuations

In order to make informed decisions about whether to amend the glass ADF law or adjust the ADF rate, the Legislature needs accurate and complete information about the program's performance. In order to properly plan and budget for their annual glass recycling programs, the counties need accurate and consistent estimates of their annual ADF allocations. We found the department has not provided either of these things.

The department is required by law to submit an annual solid waste management report to the Legislature, which informs lawmakers about ADF glass recycled by the counties, ADF revenues and expenditures, and projections for the coming fiscal year. Integrity and completeness of the report is therefore essential for lawmakers to make well-informed decisions about whether to amend the glass ADF law, including whether to adjust the ADF rate. However, we found that the Office of Solid Waste Management's ADF program annual reports are confusing and not comprehensive. We also found that the department's methodology for estimating annual ADF revenues is cumbersome and causes fluctuations in ADF revenue allocated to counties, which makes it difficult for counties to accurately budget what they will be able to collect from the State. As a result, the counties are hindered from properly planning and organizing their glass recycling programs for the coming year.

Annual reports to the Legislature are confusing

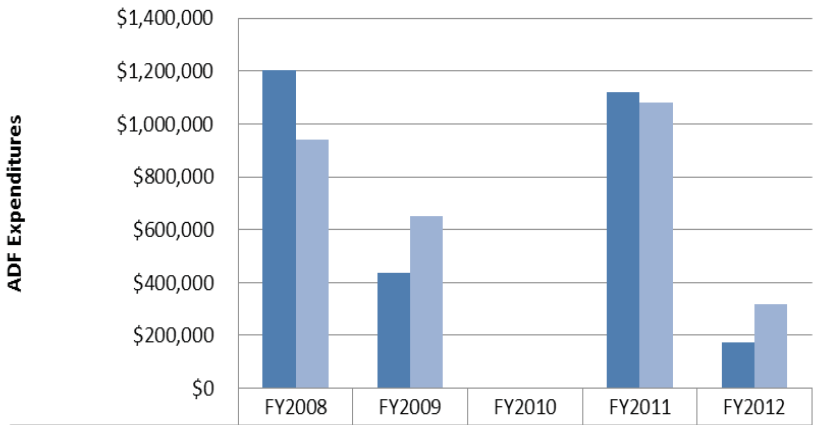
During the 2014 legislative session, stakeholders expressed confusion regarding the annual glass ADF report data. One stakeholder testified that total expenditures of glass ADF funds are unclear and key data from the counties are missing. Another stakeholder questioned the report's accuracy regarding county revenues, expenditures, and tonnage totals, noting the widely disparate figures between the three categories. Best practices dictate that accurate and complete operational and financial data are vital to help ensure accountability for effective and efficient use of resources. An integral component of an organization's management is providing reasonable assurance that financial reporting is reliable.

We found that annual glass ADF reports contain multiple inaccuracies and provide a confusing picture of the glass ADF program's revenues and expenditures. For example, in the FY2013 report, expenditures reported for fiscal years 2008 and 2011 appeared to exceed program revenues by $580,395 (93 percent) and $359,562 (47 percent), respectively. The actual expenditures for those years were $941,487 and $1,080,176—which still exceeded reported revenues, but only by $319,272 (51 percent) and $318,641 (42 percent). Moreover, the annual report did not mention that since FY2009 the department had been allowing counties to use carryover moneys from year to year, enabling them to spend more than they were allocated in ADF revenues. Specifically, in FY2009 the City and County of Honolulu, Maui County, and Kaua'i County each used ADF funds from previous fiscal years. Collectively, they used more than $218,000 in carryover funds. However, use of carryover ADF funds is not apparent in the annual reports, creating confusion as to how counties were able to spend more than what was collected.

Furthermore, we found the FY2008 and FY2009 expenditure totals in the 2013 annual report were actually ADF allocation contract amounts

for each county, not actual expenditure totals. In addition, O‘ahu, Maui, and Kaua‘i counties spent less than their full ADF allocations in FY2008 (see Appendix A). However, the unspent funds were carried over to the following fiscal year and enabled those counties to spend more than their FY2009 ADF allocations. Kaua‘i County also spent more than its ADF allocation in FY2013. Exhibit 2.2 shows counties’ total expenditures as presented in the department’s 2013 report and their actual expenditures, which includes the use of carry-over ADF allocations.

Exhibit 2.2
Reported and Actual County ADF Expenditures, FY2008–FY2012



	FY2008	FY2009	FY2010	FY2011	FY2012
Reported Expenditures	$1,202,610	$436,690	$0	$1,121,097	$173,643
Actual Expenditures	$941,487	$653,124		$1,080,176	$318,096

Note: Counties did not receive ADF funds in FY2010.

Source: Office of Solid Waste Management

We also reviewed county recycled glass tonnage figures in the annual reports and found them to be inaccurate and misleading. At our request, the ADF contract administrator reviewed counties’ quarterly reports from FY2008 to FY2012 and provided adjusted recycled glass tonnage figures, many of which were significantly higher than the tonnages in the annual reports. For example, the 2013 annual report stated that Maui County recycled 1,000 tons of non-deposit glass in FY2008. However, the department’s adjusted figure was 3,525 tons—more than three times the reported figure.

The reason for this discrepancy is that the 2013 annual report erroneously reported the amount of glass *collected* in Maui County in FY2008 instead of the amount of glass that was *recycled*. The adjusted total is higher because it includes glass that was collected in previous years but not recycled until FY2008.

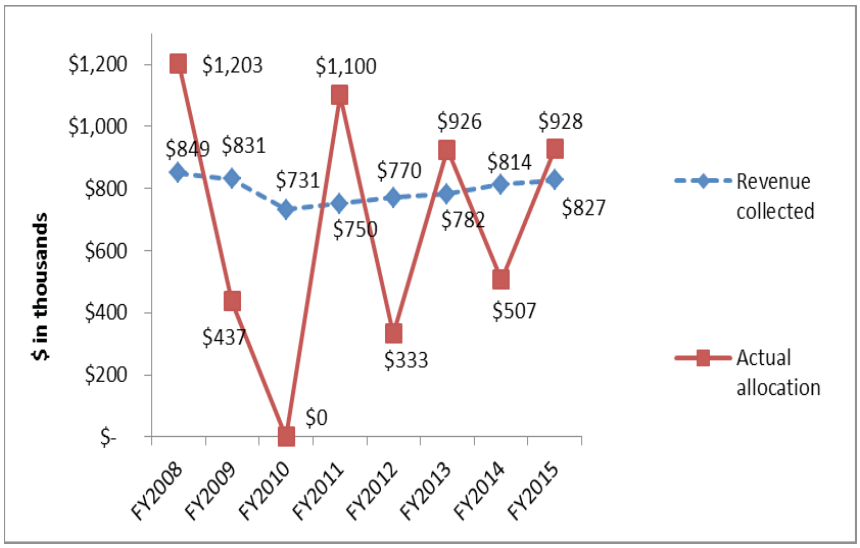
Based on the department's amended figures for FY2008 through FY2012, a total of 5,700 tons of recycled glass for the four counties was not reported. Nevertheless, some of the department's amended totals were also suspect. For instance, the department's adjusted glass ADF recycling total for Maui County for FY2009 was more than four times the amount listed in Maui's annual report, and its adjusted figure for Hawai'i County for FY2009 was about half the amount listed in that county's annual report.

The Office of Solid Waste Management staff member who prepares the annual reports confirmed he does not provide guidance or instructions to staff who contribute data to the report to ensure it is presented uniformly and in the proper context. Staff who provide data to the preparer said they do not discuss what data to include in the reports or how to accurately present it. Rather, they simply "populate the report." This is contrary to best practices, which stipulate that reliable and timely communication among contributing staff is needed throughout an agency to achieve its objectives and control its operations. The department also has no written procedures for glass ADF administration and provides no guidance to staff on how to collect and compile glass advance disposal fee data, verify the data, or present it in annual reports. Having written procedures not only ensures accountability for the stewardship of government resources, it also provides a first-line defense in preventing and detecting errors.

Department's methodology causes extreme fluctuations in annual county ADF allocations

The department uses a projected revenue baseline to calculate the ADF funds it will allocate to counties in an upcoming fiscal year. However, the department's methodology is neither accurate nor effective, which results in allocation amounts that wildly fluctuate from year to year. This causes significant hardship on counties trying to budget their glass recycling programs and has prompted some counties to come up with alternative sources of revenue to cover their costs. In addition, counties have complained to the department that the fluctuations make it difficult to keep vendors participating in their glass recycling programs. Exhibit 2.3 illustrates that while revenues collected remained relatively stable, ADF allocations to the counties fluctuated significantly for FY2008 to FY2015.

Exhibit 2.3
ADF Revenue vs. Counties' Allocations, FY2008–FY2015



Note: Counties did not receive ADF funds in FY2010.

Source: Department of Health and Office of the Auditor

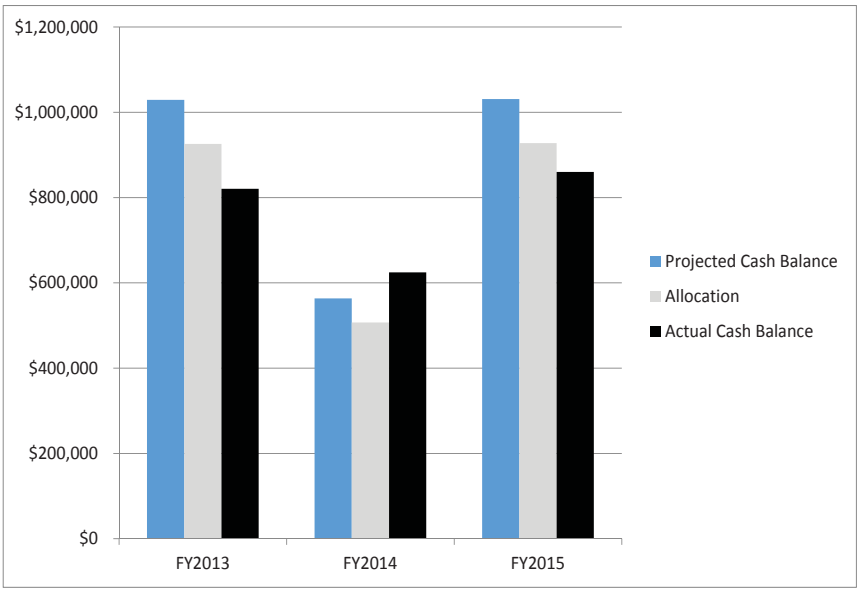
The reason for these fluctuations is twofold. First, the department's allocation methodology is questionable. When it notifies counties of their expected ADF allocations for an upcoming fiscal year, the department has typically collected about six to eight months' of ADF fee revenue—that is, half to two-thirds of the year's annual revenue. The department then simply projects it will receive $60,000 in ADF revenue per month for the remaining four to six months of the fiscal year. How the department came up with this $60,000 estimate is unknown; the ADF contract administrator told us he uses the methodology "handed down" to him when he assumed his duties in FY2012. However, monthly collections for the remainder of the year may outpace or fall short of the $60,000 estimate.

Second, the department also uses ADF moneys intended for an upcoming fiscal year to offset shortfalls in a current fiscal year. For example, in FY2013 the department overestimated the ADF beginning balance and allocated more than $105,000 over what it collected. To pay for its FY2013 over-allocation, and instead of revising its contracts with the counties (which stipulate their allocation amounts), the department used ADF funds intended for FY2014. This lowered the beginning balance for FY2014, which caused the department to drastically adjust its allocations to the counties downward that year. The same scenario appears likely for FY2016, since the department is likely to overspend in FY2015. Meanwhile, in FY2014 the department underestimated the beginning balance, allocating $117,000 less than what was actually collected. However, the department elected not to revise counties'

allocations, meaning counties received less than what was owed them for FY2014. The department used more than half of the $117,000 surplus in FY2014 for its administrative costs.

Exhibit 2.4 illustrates projected balances (estimated in roughly January or February per year), counties' allocations (which are 90 percent of estimated funds available; the remaining 10 percent is retained by the department for administrative purposes), and actual balances at the start of each fiscal year from FY2013 through FY2015.

Exhibit 2.4
Projected and Actual ADF Cash Balances vs. Counties' Allocations, FY2013–FY2015



Source: Department of Health and Office of the Auditor

The ADF contract administrator agreed the department's methodology does not provide an accurate assessment, is very cumbersome, and is difficult to calculate. The department is considering a new methodology based on actual revenues collected each year rather than a calculated cash balance. However, such a methodology would still involve departmental projections of ADF revenue.

The department argues its proposed changes will allow it to inform counties of their expected allocations for the upcoming fiscal year slightly earlier, which would help counties plan their glass recycling program budgets. The department would then inform counties of actual allocations in February of each year, after the department compiles actual ADF revenues for the previous fiscal year. However, counties have cautioned that a February notification does not leave them much time

to adjust their budgets if the department's actual allocation differs from its forecast. Since the department has yet to implement its proposed methodology, we cannot assess whether it will be more accurate or effective than the current method.

Department Administers the Glass ADF as a Pass-Through Fund

The department views its role for the glass ADF as limited to collecting funds and passing them along to counties. This approach may explain a number of shortcomings we found in the department's administration of the glass ADF, particularly regarding overseeing costs and compliance with state laws. We found the department's administration of the glass ADF program is lax: it does not verify costs, was unaware of the use of some of its ADF funds, allowed counties to overspend their allocations, and has not dedicated resources to administering the program. We also found the department had circumvented key ADF laws by allowing counties to retain unspent ADF funds. In addition, the department is providing funds to one county despite its having no buyback program, which is required by law.

Department's administration of the glass ADF program is lax

The department does not verify or require supporting documentation for costs claimed by counties and recyclers. As a result, the department cannot determine why incentive rates to recyclers vary from county to county. The lack of documentation identifying and verifying costs also limits the department's ability to assess whether the ADF rate adequately covers costs for county glass recycling programs or whether the rate should be adjusted.

The department was also unaware that ADF moneys are used to fund a full-time county position, allowed counties to exceed their ADF allocations on numerous occasions, and has not dedicated or asked for appropriate resources to adequately administer the glass ADF program. By not collecting pertinent data such as shipping costs—which have significantly increased yearly while the ADF rate has remained the same—the department hampers the Legislature's ability to meaningfully discuss whether an adjustment in the ADF rate is merited. By not assigning anyone to administer the glass ADF full-time or taking action to mitigate its lack of resources in administering the program, the department has not fulfilled its statutory responsibilities under Chapter 342G, HRS, which includes the glass ADF.

Department does not verify county and recycler costs

We reviewed the department's contracts with the counties for FY1996 through FY2007. The contracts required, among other things, counties to submit quarterly and annual reports to document the volume of glass they

collected through a buyback or other glass incentive program. However, the contracts did not require supporting documentation.

In 2012, the ADF contract administrator began asking counties—via an email, not as a contractual requirement—to provide supporting documents with their quarterly reports to verify that glass collected was received by mainland or local end-users. Supporting documents include bills of lading and weight tickets. Despite this positive development, the department still does not require counties to corroborate their costs or recyclers' costs. For example, counties do not have to provide documentation to justify the incentive rates they pay recyclers for collecting, processing, and transporting non-deposit glass. Nor are they required to justify their buyback rates, which are meant to encourage public participation. Exhibit 2.5 shows that incentive[2] and buyback[3] rates, as well as how they are established, vary among the counties.

Exhibit 2.5
County Incentive and Buyback Rates, 2013

County	Incentive rate	Buyback rate	How established
City and County of Honolulu	9¢/lb.	1¢/lb.	Assessment of recyclers' costs.
Maui County	3.75¢/lb.	0.5¢/lb.	Based on ADF allocation amount and tons of glass processed. Recyclers' costs are not considered.
Hawai'i County	5¢/lb. for collection; 8¢/lb. for recycling	None	Rates are established in contracts with recyclers. Recyclers' costs are not considered.
Kaua'i County	None	None	N/A

Source: City and County of Honolulu, Maui County, Hawai'i County, and Kaua'i County

Similarly, the department does not require documentation of freight and trucking costs claimed by recyclers. Contract administration best practices recommend contracting agencies have the ability to review major cost categories. This helps ensure agencies not only receive services on time and within budget, but that taxpayers are receiving the best value. The ADF contract administrator told us he does not review invoices for major cost categories or perform any onsite visits to recyclers to ensure glass collection figures are accurate, contrary to best practices.

[2] *Incentive rate* is the amount paid to recyclers.

[3] *Buyback rate* is the amount paid to the public and collectors.

Department was not aware ADF moneys are used to fund a full-time county position

Until notified by us during this audit, the department was not aware that ADF funds are used to pay the salary of a full-time county position. Because the department does not require counties to submit supporting documentation for administrative expenses, it is not aware of specifics regarding direct labor costs claimed by counties. For example, in FY2006, the City invoiced the department $8,000 in administrative costs for six months but did not itemize those costs or include supporting documents. In FY2011 and FY2013, the City invoiced $36,000 each in administrative costs for six months. However, none of the invoices included an explanation for the increases or identified that costs included the salary of a county employee.

The ADF contract administrator said he was not aware ADF moneys were being used for this purpose. According to the City's assistant chief of the Department of Environmental Services, ADF funds have paid for this position "since the beginning, before the program expanded to the State." The City's assistant chief identified the position as a recycling specialist with an annual salary of $40,000, adding that ADF funds are likely used to also pay the employee's benefits, such as health care. She said this ADF-funded county position performs a variety of duties, including, but not limited to, glass recycling. She noted that the City did not specifically list the position among its administrative costs because its contract with the department does not require reporting of specific cost information. She also said state law permits ADF funds to be used to administer county programs, which the City believes it is doing by funding the position. The ADF contract administrator agreed that the law does not expressly forbid this use of funds.

Although the law is not clear on whether this use of ADF funds is permissible, it is clear that the department was not aware of the nature of this expenditure because its contract with the City did not require the City to detail specific costs. Not including cost documentation as part of a contract's reporting requirements omits a key mechanism for ensuring accountability for the stewardship of government resources and illustrates the department's lack of commitment to administering the glass ADF program.

Counties' costs exceeded ADF allocations on numerous occasions, forcing them to find alternative funding

By law, glass ADF revenue is used to support county glass recovery programs. However, the law does not say whether ADF funds are intended to fully fund counties' programs or merely supplement counties' own funding. We found that, because of the department's

wildly fluctuating annual ADF allocations, counties often resort to using alternative sources to pay for their glass collection programs after they have exhausted their ADF allocations. These methods include using their own general funds, using reserve ADF funds, and not paying recyclers. However, the department's annual reports from 2011 to 2013 did not include this information, leaving the Legislature uninformed as to whether ADF allocations sufficiently supported county glass recycling programs.

For example, between FY2002 and FY2014, the City, Hawai‘i and Maui counties all used alternative resources to fund their glass recycling programs, totaling more than $5 million. The City and County of Honolulu used more than $3.1 million in ADF reserve funds—nearly double its contracted ADF allocation during that period. The City's glass recycling program was suspended in June 2014 after recyclers said they would no longer participate in the program due to the shrinking incentive rate, the result of insufficient ADF funding. Hawai‘i County used more than $620,000 of its own general funds—almost 115 percent of what it received from ADF allocations. Maui forced recyclers to absorb more than $114,000. A Maui recycling specialist told us recyclers passed those costs on by raising tipping fees to other haulers or rates to customers. Exhibit 2.6 shows that the State's glass ADF allocations to counties represented only 43 percent of the total funding for glass recycling in the islands between FY2011 and FY2014.

Exhibit 2.6
County Funding Sources for Glass Recycling Programs, FY2011–FY2014

	Honolulu	Hawaii	Maui	Kauai	Total
ADF allocations from DOH	$1,705,800	$541,100	$477,100	$201,200	$2,925,200
Other revenue sources					
ADF reserve funds*	3,117,288				3,117,288
County funds		621,947			621,947
Recylcers absorbed costs			114,417		114,417
Fund sources total	**$4,823,088**	**$1,163,047**	**$591,517**	**$201,200**	**$6,778,852**
% financed by ADF allocations	**35%**	**47%**	**81%**	**100%**	**43%**

*Carried over from previous years' ADF allocations, in contravention of state law.

Note: No ADF contracts were issued in FY2010.

Source: Office of the Auditor

The ADF contract administrator said that counties are not required to disclose whether they use other means to support their programs once ADF funds have been spent, but agreed it would be helpful for lawmakers to be informed of such developments in the annual solid waste management reports.

Data on shipping costs are not collected

Data on shipping costs are also not collected by the department or reported in annual reports. We found that two of the four counties ship all their non-deposit glass to the mainland for reuse or recycling. The City and Maui County, which receive the largest and third-largest shares of ADF allocations (based on population), respectively, both told us their glass recycling programs' largest cost is shipping scrap glass to California. Exhibit 2.7 shows photos of 40-foot ocean freight containers typically used in shipping cargo such as scrap glass.

Exhibit 2.7
Photos of 40-Foot Ocean Freight Containers

Source: Matson Navigation Company

We reviewed ocean freight rates for shipping scrap glass from Hawai'i to the mainland. Rates are affected in part by fuel surcharges, which are based on a percentage of a company's ocean freight charge and terminal handling charges for moving cargo through ports. Fuel surcharges vary the most, since they are driven by the market price of fuel. For example, the fuel surcharge was as low as 8 percent in 2004 but increased to 11.5 percent in July 2005 and jumped to 42.5 percent in September 2014. Shipping cost data provided by two shipping companies in Hawai'i showed that since 2005, the fuel surcharge raised their shipping costs 224 percent and 409 percent, respectively, while terminal fees jumped more than 350 percent over the same period.

If the purpose of the ADF is to ensure sufficient funding for counties to operate glass collection programs year-round, there is evidence this purpose is not consistently achieved. Moreover, while ADF revenue has been fairly consistent because the 1.5¢ rate has not changed since

1994, the cost of shipping non-deposit glass out of state has increased significantly.

Department is not committed to securing sufficient resources to effectively administer the glass ADF

The department has not updated the State's integrated solid waste management plan as required by law, or dedicated sufficient personnel resources to adequately administer the glass ADF program.

By law, the Office of Solid Waste Management is required to revise the state integrated solid waste management plan within six months after approving each of the counties' integrated solid waste management plans. The City's plan was approved in 2008 and the three neighbor island counties' plans were approved in 2009. The office was required to convene a task force to review the counties' plans, update material in the previous state plan, and revise the state plan by June 2010. However, this did not occur; the state plan has only been updated once—in 2000.

The purpose of the 2000 state plan was to provide guidance for improving the state's solid waste system and sustainability. The plan reviewed the state's progress in achieving the previous plan's goals and addressed the status of commercial recycling, cost issues for recyclers in Hawai‘i, and how to increase participation in, among other things, glass recycling. Revising the 2000 plan would provide updated information for legislators regarding waste management issues and could also provide an opportunity to assess how the DBC Program has impacted the glass ADF program, since the DBC Program was implemented two years after the 2000 state plan was issued.

In its 2013 annual report to the Legislature, the department acknowledged that the 2000 state plan is outdated and has not been revised due to a lack of funds. The department requested $350,000 to revise the state plan, but the request was not approved by the 2014 Legislature. The department says it intends to resubmit this funding request to the 2015 Legislature.

In addition to not updating the state plan, ostensibly due to lack of resources, the department has not committed or secured adequate personnel resources to administer the glass ADF. The program is administered by four staff in the Office of Solid Waste Management, who perform glass ADF duties on an as-needed basis. One staff administers the ADF contracts for all four counties, including reviewing all invoices and supporting documents. Another staff performs enforcement and compliance duties, including identifying glass importers doing business in Hawai‘i and companies required to pay the ADF, and tracking delinquent ADF payments. A third staff performs accounting services for

ADF deposits and reimbursement payments. A fourth staff is the solid waste management coordinator who supervises the staff.

All three staff are also assigned to the DBC Program or other duties in the office. However, the position descriptions of two of the three staff do not include any duties associated with the glass ADF program. The third staff's position description commits 20 percent of the position's time (eight hours a week) to administering the glass ADF and the solid waste disposal surcharge; however, this employee told us he spends roughly three to four hours a week on the ADF program.

According to the department, in 2013, it considered requesting additional positions to administer the glass ADF program but those proposals were set aside in favor of adding resources to the DBC Program. The department was non-committal about whether it will request additional positions for the glass ADF in the FY2015 budget cycle. Overall, the department has not shown it is willing to commit sufficient resources to administer the glass ADF program beyond a part-time basis. This is contrary to best practices, which include providing sufficient resources to administer a program—including proper contract management—in order to ensure actions are taken to address risks and provide accountability for the stewardship of government resources. Management should view human capital as an asset rather than a cost and effective management of its workforce as essential to achieving results.

Department has circumvented key ADF laws

The department's perspective that it merely collects and distributes ADF funds to the counties does not exempt it from complying with state laws governing the glass ADF. We found the department knowingly did not enforce the ADF law and, in fact, took actions to avoid complying with it. Under the department's watch, some counties were permitted to use unspent ADF moneys instead of following the law by returning unused funds to the State. The department also changed its method of payment to counties to avoid complying with this statutory provision. These actions raise concerns about the department's commitment to properly administer the glass ADF by ensuring applicable laws are upheld and enforced. In addition, we found that the department has been providing ADF funds to Kaua‘i County despite the fact that it does not have a buyback program as required by law.

Department permitted some counties to retain unspent ADF funds in violation of state law

State law requires that any unused ADF moneys are to be returned to the State at the end of each annual contract period. However, this has not been happening. Until FY2008, the department paid counties their annual ADF allocations up front on a quarterly basis. At least two

counties were permitted to retain unspent ADF allocations and add them to their next year's ADF funds.

For example, the City has its own glass recycling fund (left over from the program it started in 1989, ahead of the State's 1994 glass recycling program), into which it deposited its ADF allocations from the State. During those years, any unspent ADF moneys remained in the City's glass recycling fund and were not returned to the State; although the City's assistant chief of the Department of Environmental Services noted that the department never asked for unspent ADF moneys to be returned. By FY2010, the City's glass recycling fund had a balance exceeding $5.3 million of State ADF funds commingled with funds collected by the City prior to 1995. The City's assistant chief estimates approximately $1.5 million remains in its glass recycling fund. The funds have been used to pay for glass recycling program costs once ADF funds were depleted. We also found that Hawai'i County used roughly $238,000 in unspent ADF funds in FY2002 and FY2003, indicating the department did not enforce the return of unspent funds with this county, either.

Beginning in FY2008, the department changed its allocation methodology to a reimbursement model. This was intended, in part, to avoid the problem of counties being required to return unspent balances to the State at the end of each year. However, as late as 2011, the department was still circumventing this requirement by allowing counties to carry over unspent balances from year to year.

For example, a 2011 email exchange between the City's assistant chief and the former coordinator for the Office of Solid Waste Management revealed the department was aware of the law that unspent ADF moneys must be returned annually to the State. In trying to convince the City to forgo its ADF allocation for FY2012, the former coordinator reminded the City that the department had so far never asked the City to return its unspent funds as required by law. The City agreed to the request and noted it was not aware of the mandatory return of unspent funds. The former coordinator responded that the department had changed its method of payment to the counties in order to avoid having to comply with this statutory provision. The 2011 email said, in part:

> We discussed this requirement a few years back when we changed the wording in the state/county contracts (2005 or 2006?) for actual reimbursement of expenses rather than just lump sum payments so we would avoid 'unspent funds' in future years.

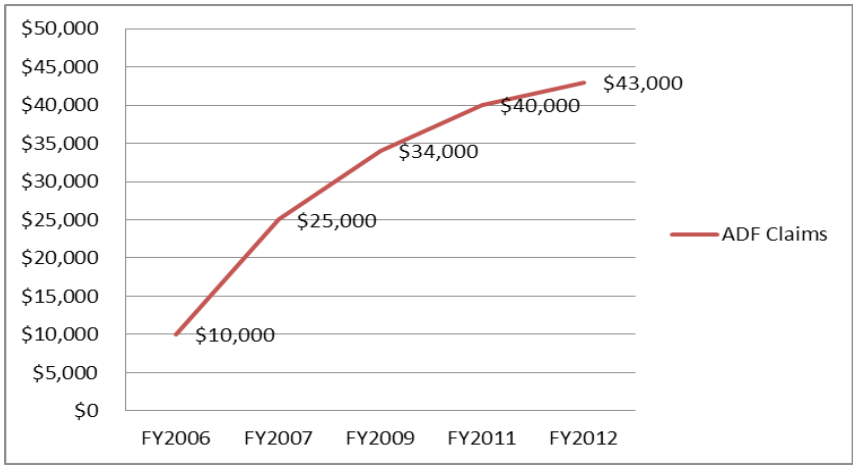
We also note that the department's actions requesting the City to forgo its ADF allocation conflicted with its statutory responsibility to distribute ADF funds to all counties based on population. Consequently, in

FY2012 the three neighbor island counties received allocations that exceeded their populations by 12 to 29 percent, while the City received nothing.

Kaua‘i County receives ADF funds despite lacking a “buyback” program

By law, each county’s glass recovery program must have some form of glass incentive or “buyback” program to encourage participation by the public or private collectors. However, Kaua‘i County’s solid waste program coordinator acknowledged that the county has not had a buyback program since 2005, the year its contract with a company to operate its commercial glass recycling program ended. Nevertheless, the county has continued to receive ADF funds from the department. Exhibit 2.8 shows that not only has Kaua‘i County continued to claim ADF reimbursements, its claims increased 328 percent from FY2006 to FY2012.

Exhibit 2.8
Kaua‘i County ADF Claims, FY2006–FY2012



Note: Claims data for FY2008 and FY2010 were not obtained by our office.

Source: Department of Health

The glass ADF contract administrator argues that Kaua‘i County meets the buyback requirement through its participation in the DBC Program, which includes a redemption system that pays 5¢ for each empty deposit beverage container. However, the ADF statutory buyback requirement applies specifically to non-deposit glass collection programs.

By statute, the ADF does not apply to glass *deposit beverage containers*. Glass ADF funds are to be allocated to each county provided its glass recovery program meets the statutory buyback requirement. In contrast, the DBC fee is levied against distributors who import and sell *deposit*

beverage containers and is deposited into a separate special fund. DBC revenues are used to reimburse refund values (5¢ per container) and handling fees (based on tonnage) to redemption centers, support the transportation of deposit beverage containers to end-markets, hire personnel to oversee implementation of the DBC Program, and pay for administrative and compliance activities associated with collecting and paying program deposits and handling fees. Thus, the glass ADF program and the DBC Program have distinct statutory provisions, and we find that the buyback requirement specified in the ADF law applies specifically to non-deposit glass containers and is not fulfilled by participation in the DBC Program.

Conclusion

The department's approach to administering the glass ADF needs to expand beyond its perceived role as solely a pass-through agency that collects and allocates funds to the counties. Its commitment to its statutory responsibility is suspect given its effort to secure sufficient resources to administer the ADF. Further, the department's inability to provide accurate data to the Legislature hinders lawmakers' ability to make well-informed decisions on the appropriateness of the ADF rate.

Given that only the Legislature can adjust the ADF rate, the department should work with lawmakers to update the State's waste disposal goals and clarify whether the purpose of the ADF is to fund counties' glass collection programs year-round. Addressing these issues will help provide greater transparency as to whether the glass ADF is making progress towards achieving its goals and help assess whether the ADF rate is adequate.

Recommendations

1. The Department of Health should:

    a. Work with the Legislature to update the State's waste disposal goals to ensure the goals are measureable and revised when necessary;

    b. Work with the Legislature to clarify whether the purpose of the glass advance disposal fee is to fully or partially fund county glass collection programs;

    c. Adopt administrative rules that include, but are not limited to, recycling goals for non-deposit glass, performance measures for the glass ADF, a schedule when counties are notified of ADF allocations and formalizing contracts, reporting requirements and supporting documents, and a process for returning unspent ADF funds at the end of annual contract periods;

d. Adopt written procedures for the glass ADF program that include, but are not limited to, contract administration, accounting, enforcement and compliance, and the collection and compilation of glass ADF data presented in annual reports to the Legislature;

e. Revise the scope of services in its contracts with counties to include requiring supporting documents for costs such as administrative costs and incentive rates;

f. If it elects to retain reimbursement as the preferred method of payment, coordinate with counties to establish a new method for calculating ADF allocations that is timely and accurate;

g. Require the City and County of Honolulu to return unspent ADF funds that were allocated in previous years, taking into account the reserve ADF funds the county used in FY2012 at the department's request;

h. Suspend allocations of glass ADF funding to Kaua'i County until the department reaffirms whether the buyback program required for counties to receive glass ADF funds is satisfied by participation in the deposit beverage container 5¢ redemption system; and

i. Continue with intended plans to request from the 2015 Legislature funds to update the State's integrated waste management plan and additional staff to adequately administer the glass ADF.

2. The Legislature should consider:

a. Amending Section 342G-3(1)(2), HRS, to update the State's waste reduction goals;

b. Clarifying in statute whether the purpose of the glass ADF is to fully fund or merely supplement county glass collection programs; and

c. Clarifying in statute whether the glass ADF is to achieve collection and recycling goals established by the department for non-deposit glass.

Response of the Affected Agency

Comments on Agency Response

We transmitted a draft of this report to the Department of Health on December 15, 2014. A copy of the transmittal letter is included as Attachment 1. The department's response, dated December 19, 2014, is included as Attachment 2.

The department generally agreed with our findings and recommendations, and suggested minor technical changes.

We made minor technical corrections for clarity and style prior to publication.

Appendix A
Adjusted County Glass ADF Expenditures, FY2008 through FY2012

	O‘ahu	Hawai‘i	Maui	Kaua‘i
FY2008				
2013 Report	$832,580	$150,640	$151,650	$67,740
Adjusted	$671,806	$150,640	$82,673	$36,369
FY2009				
2013 Report	$295.205	$59,390	$57,205	$24,890
Adjusted	$453,565	$59,390	$105,841	$34,327
FY2010				
2013 Report	*	*	*	*
Adjusted	N/A	N/A	N/A	N/A
FY2011				
2013 Report	$745,000	$150,000	$145,000	$40,176
Adjusted	$745,000	$150,000	$145,000	$40,176
FY2012				
2013 Report	**	**	$40,176	$32,043
Adjusted	N/A	$132,700	$40,176	$43,796

Yellow: expenditures less than the ADF allocation.

Green: expenditures exceeding the ADF allocation.

*Counties did not receive ADF funds in FY2010.

**Expenditure totals not included in the 2013 report.

Source: Department of Health

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Response of the Affected Agency

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ATTACHMENT 1

STATE OF HAWAI'I
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawai'i 96813-2917

JAN K. YAMANE
Acting State Auditor

(808) 587-0800
FAX: (808) 587-0830

December 15, 2014

COPY

The Honorable Keith Y. Yamamoto
Acting Director, Department of Health
1250 Punchbowl Street
Honolulu, Hawai'i 96813

Dear Mr. Yamamoto:

Enclosed for your information are three copies, numbered 6 to 8, of our confidential draft report, *Audit of the Department of Health's Glass Advance Disposal Fee Program*. We ask that you telephone us by Wednesday, December 17, 2014, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit your hard copy response to our office no later than 4:30 p.m., Friday, December 19, 2014.

The Governor and presiding officers of the two houses of the Legislature have also been provided copies of this confidential draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

for Jan K. Yamane
Acting State Auditor

Enclosures

DAVID Y. IGE
GOVERNOR OF HAWAII

KEITH YAMAMOTO
DIRECTOR OF HEALTH

STATE OF HAWAII
DEPARTMENT OF HEALTH
P. O. BOX 3378
HONOLULU, HI 96801-3378

In reply, please refer to:
File:

December 19, 2014

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OFC. OF THE AUDITOR
STATE OF HAWAII

Ms. Jan K. Yamane
Office of the Auditor, State of Hawaii
465 South King Street, Suite 500
Honolulu, Hawaii 96813

Dear Ms. Yamane:

Attached are the Department of Health's comments for the Audit of the Department of Health's Glass Advance Disposal Fee Program.

We appreciate the opportunity to comment on the audit reports.

Sincerely,

KEITH YAMAMOTO
Director of Health

Attachment

SUBJECT: AUDIT OF THE DEPARTMENT OF HEALTH'S GLASS ADVANCE DISPOSAL FEE PROGRAM

Prior to stating our specific comments, we would like to request the following edits to the report.

The Department of Health (DOH) requests the modification of Exhibit 1.1 to reflect the Office of Solid Waste Management (OSWM) at the same level as the Solid Waste Section, Hazardous Waste Section, and the Underground Storage Tank Section under the Solid and Hazardous Waste Branch. In addition, the DOH also requests the modification of Exhibit 1.3, box "8" to reflect that not all glass is shipped to the mainland but some are reused for projects within the State of Hawaii.

We appreciate the opportunity to comment on the subject reports. We offer the following general comments to address the auditor's concerns in the report:

The DOH continues and remains fully committed to funding the counties' glass recovery programs as a pass-through agency. As specified by statute, the DOH will continue to distribute ninety percent of the Glass Advance Disposal Fee (ADF) funds collected to each of the counties based on their de facto population. In 2012, the DOH changed to an invoicing and reimbursement method of making payments that dramatically increased the counties' accountability for the expenditure of ADF funds. The DOH will continue to utilize the invoicing and reimbursement method to fund the counties' glass recovery programs through contracts that will newly incorporate additional supporting documents from the counties, as recommended by the auditor. The scope of services for the FY2016 ADF contracts with the counties will require tighter reporting requirements to include background documents such as freight bills and trucking costs, county administration costs, and a justification of county incentive rates. To better assist the counties in their budget process, the DOH previously notified the counties in September 2014 that the OSWM will no longer use estimates to derive county glass recovery contract amounts but will now use actual glass revenues. This change in methodology will mitigate the auditor's concerns about the fluctuations in the counties' allocations and their budgeting hardship.

Senate Concurrent Resolution No. 74, SD 1, HD 1 (2014) required the DOH to meet with the counties, and provided the OSWM an opportunity to better understand the unique intricacies of each county's glass recovery programs. The DOH will complete the meetings with each county sometime in January 2015. After the meetings with the counties are complete, the DOH will be in a better and informed position to address the auditor's concerns about the return of unspent funds and satisfying buy back statutory requirements. The request for funds to update the State's integrated solid waste management plan has been included in the DOH's administrative request to the 2015 legislature. The request for additional staff as recommended by the auditor was not included in the request as the DOH will continue to serve in the capacity as a pass-through agency.