

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

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

Conducted by
The Auditor, State of Hawai'i
and KMH LLP

Report No. 25-08
May 2025



OFFICE OF THE AUDITOR
STATE OF HAWAII

Audit of the Department of Health's Deposit Beverage Container Program

Senate Committee on Health
and Human Services

Office of the Auditor
October 16, 2025

**Financial and Program Audit of the
Department of Health's Deposit
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[§342G-107] Management and financial audit. The auditor shall conduct a management and financial audit of the program for fiscal years 2004-2005 and 2005-2006, and for each fiscal year thereafter ending in an even-numbered year. The auditor shall submit the audit report, including the amount of unredeemed refund value and recommendations, to the legislature and the department no later than twenty days prior to the convening of [the] next regular session. The costs incurred by the auditor for the audit shall be reimbursed by the deposit beverage container program special fund. The auditor may contract the audit services of a third party to conduct the audit. [L 2002, c 176, pt of §2]

Audit of the Deposit Beverage Container Program

A Report to the
Governor
and the
Legislature of
the State of
Hawaii

Report No. 05-09
November 2005



THE AUDITOR
STATE OF HAWAII



**State of Hawaii
Deposit Beverage Container
Deposit Special Fund**

Financial and Program Audit
June 30, 2008

Submitted by
The Auditor
State of Hawaii

Quality

Integrity

Insight



State of Hawaii
Deposit Beverage Container
Deposit Special Fund
Financial and Program Audit
June 30, 2010

Submitted by
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**Management and Financial
Audit of the Deposit Beverage
Container Program, June 30, 2012**

A Report to the
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Hawai'i

Report No. 13-08
November 2013



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**Financial and Program Audit of
the Deposit Beverage Container
Program, June 30, 2014**

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

Report No. 15-02
April 2015



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Financial and Program Audit of the Deposit Beverage Container Program, June 30, 2016

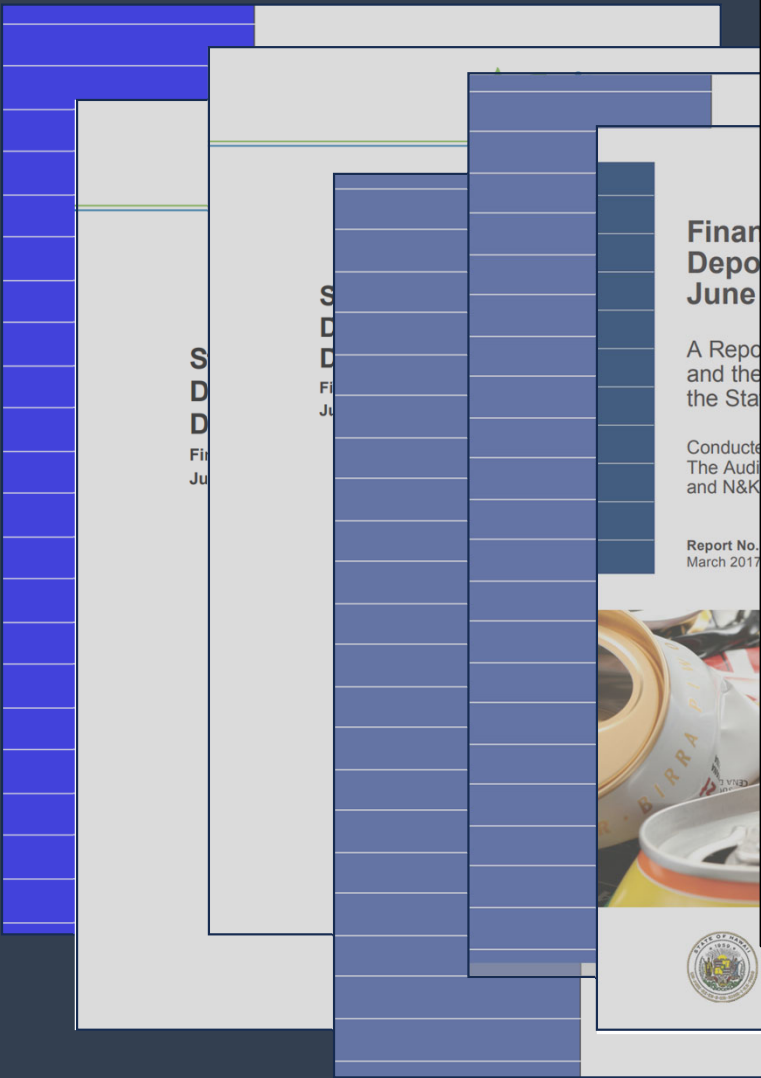
A Report to the Governor
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Conducted by
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and N&K CPAs, Inc.

Report No. 17-02
March 2017



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STATE OF HAWAII



Financial and Program Audit of the Department of Health's Deposit Beverage Container Program, June 30, 2018

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

Conducted by
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Report No. 19-08
March 2019



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Financial and Program Audit of the Department of Health's Deposit

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Financial and Program Audit of the Department of Health's Deposit Beverage Container Program, June 30, 2020

A Report to the Governor
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Conducted by
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Report No. 21-13
December 2021

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Report No.
March 2017



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State of Hawaii
Department of Health
Financial and Program Audit of the
Beverage Container Program,
June 30, 2022

State of Hawaii
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Financial and Program Audit of the Department of Health's Deposit Beverage Container Program, June 30, 2022

A Report to the Governor
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Report No. 23-07
June 2023



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Financial and Program Audit of the Department of Health's Deposit Beverage Container Program, June 30, 2022

A Report to the Governor
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Report No. 23-07
June 2023

Financial and Program Audit of the Department of Health's Deposit Beverage Container Program, June 30, 2022

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June 2023



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STATE OF HAWAII



**Financial and Program Audit of the
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Beverage Container Program,
June 30, 2024**

A Report to the Governor
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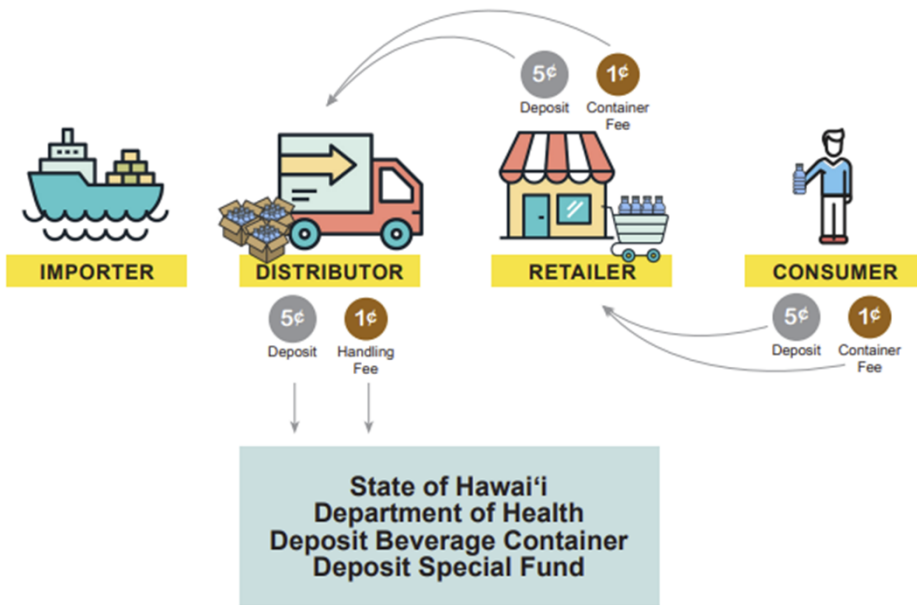
Conducted by
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Report No. 25-08
May 2025

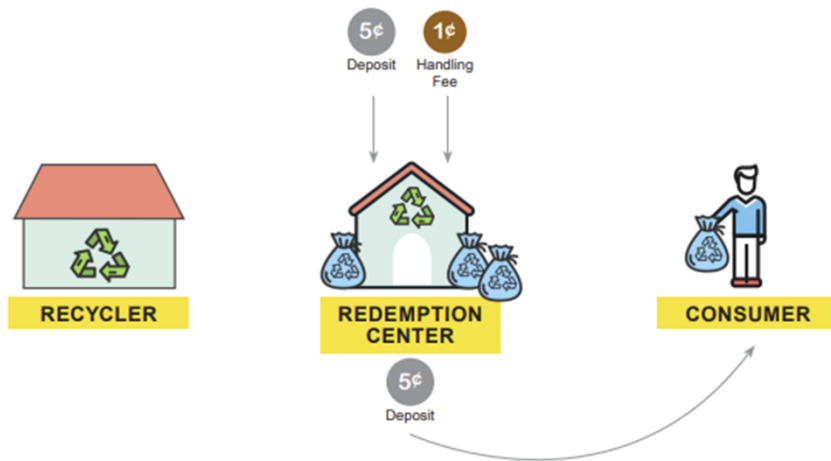


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STATE OF HAWAII

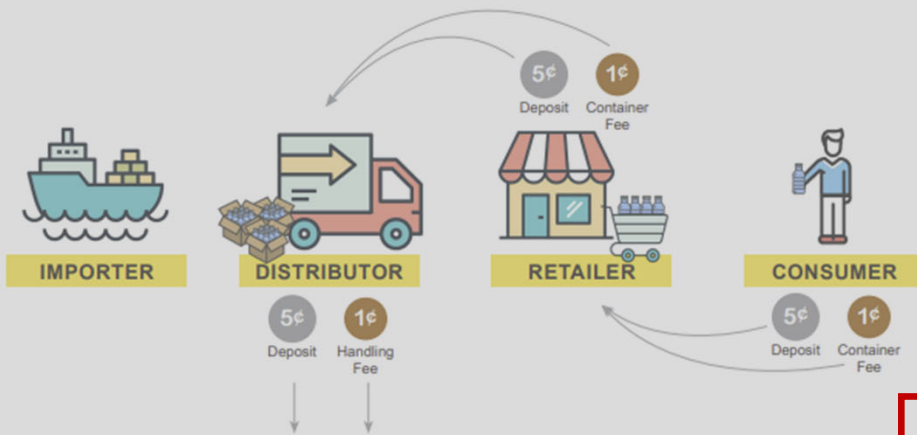
Deposit and Container Fee Collection Process



Redemption Process

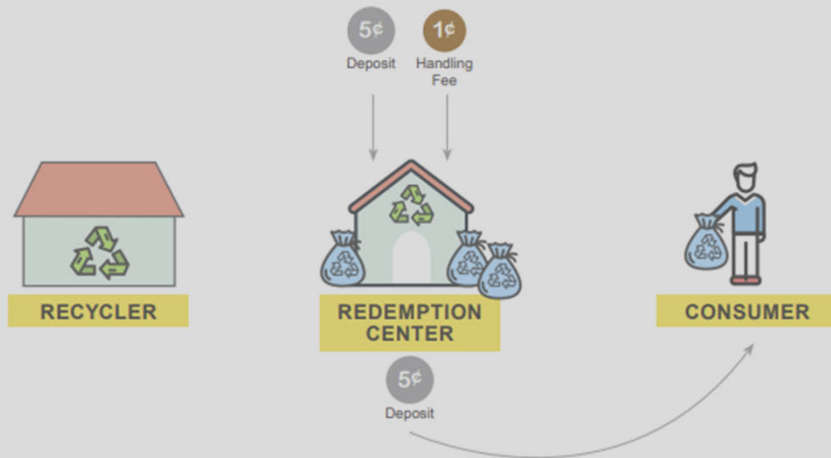


Deposit and Container Fee Collection Process



State of Hawai'i
Department of Health
Deposit Beverage Container
Deposit Special Fund

Redemption Process



7-ELEVEN
590 QUEEN STREET
HONOLULU HI 96813
8085364994
STORE # 54289

THANK YOU FOR SHOPPING 7-ELEVEN HAWAII
YOUR NEIGHBORHOOD STORE

Qty	Desc	Prc(\$)	Amt(\$)
1	DIET COKE 20Z BOTTL	3.09	3.09 B
	Btl+DepFee	0.06	0.06 F

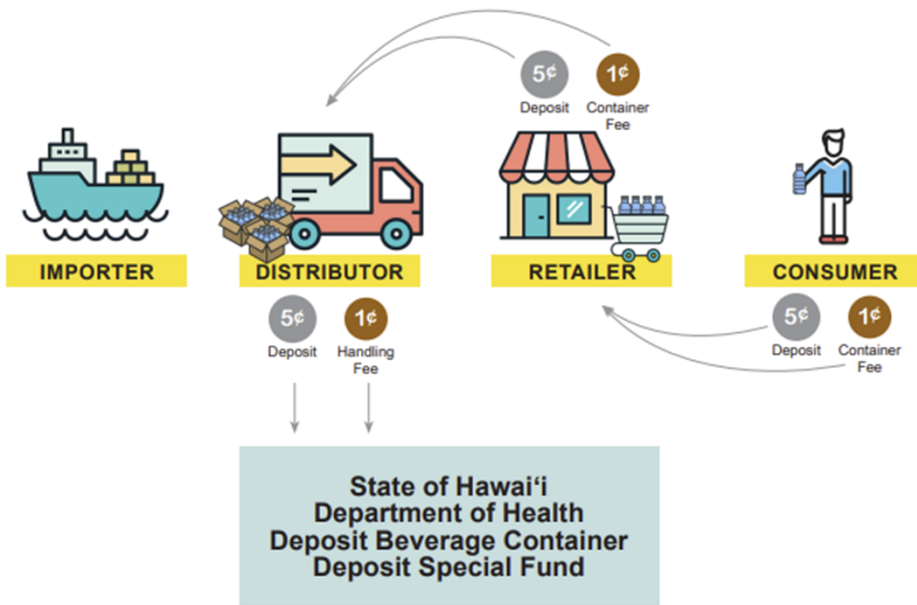
1 Total Deposit	0.06
1 Subtotal	3.09
TAX on 3.09	0.15
Total Due	3.30
CASH	4.00
Change	0.70
Total Received	3.30

CUSTOMER COMMENTS: 808-944-2711
VISIT US ONLINE @ WWW.7ELEVENHAWAII.COM
SHIFT#2 REGISTER#2
DATE/TIME 10-15-2025 13:40

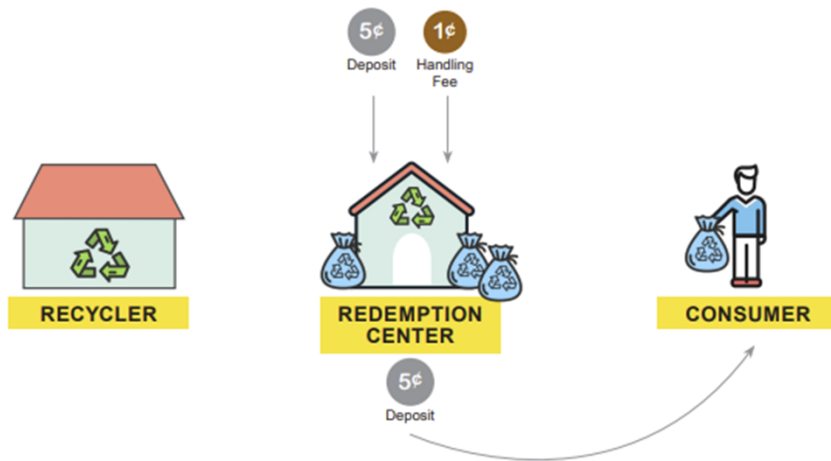


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Deposit and Container Fee Collection Process



Redemption Process



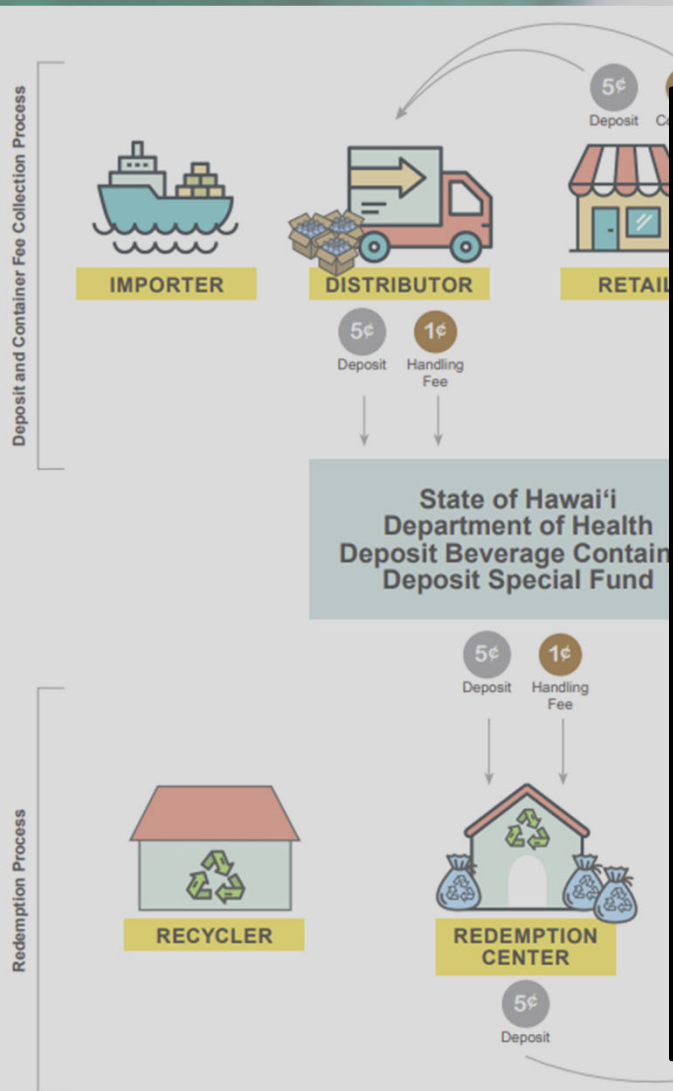
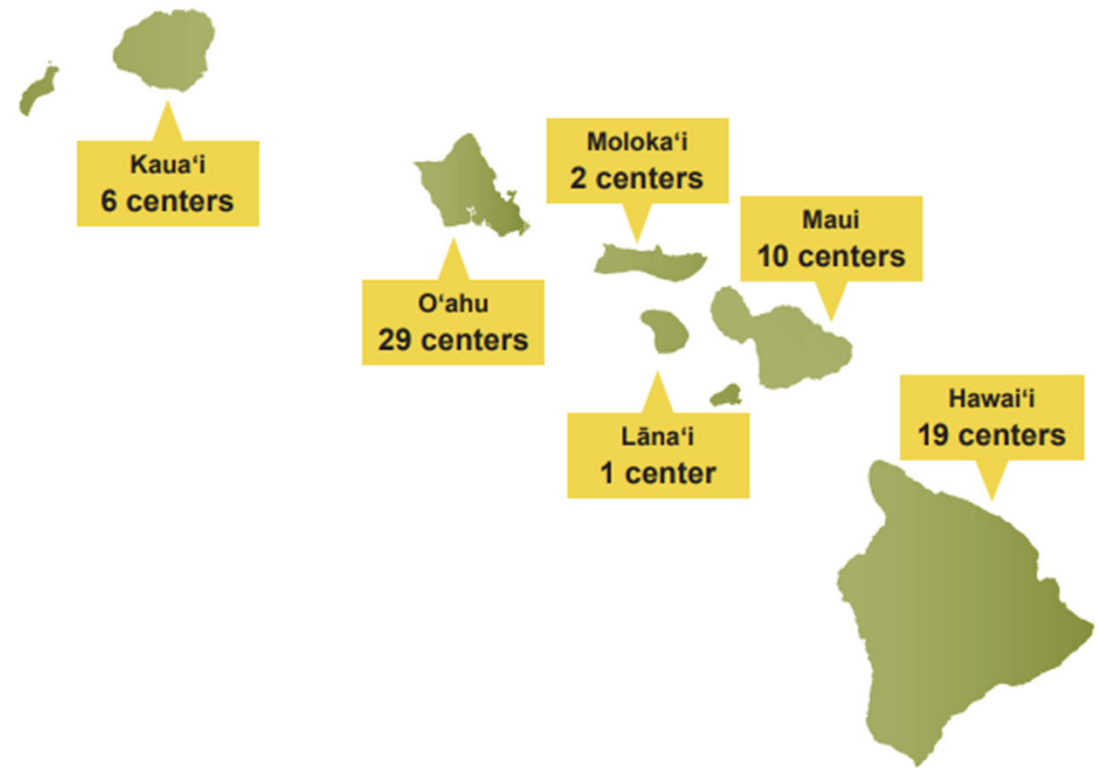
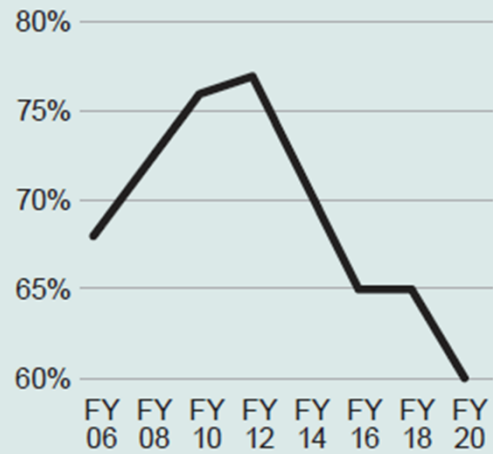


Exhibit 3 Redemption Centers in Hawai'i

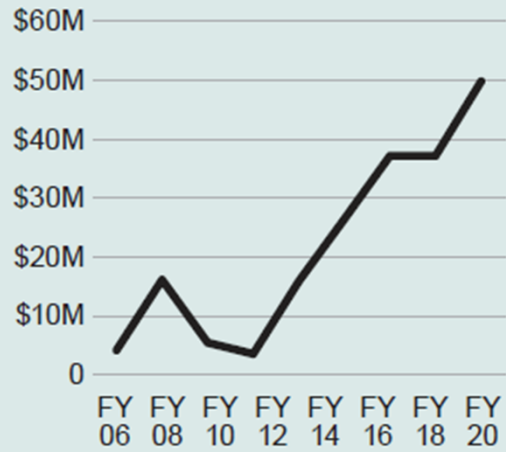


Source: Department of Health

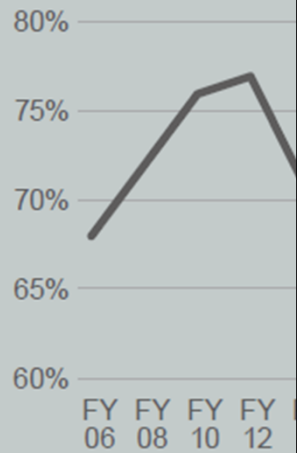
Redemption Rates



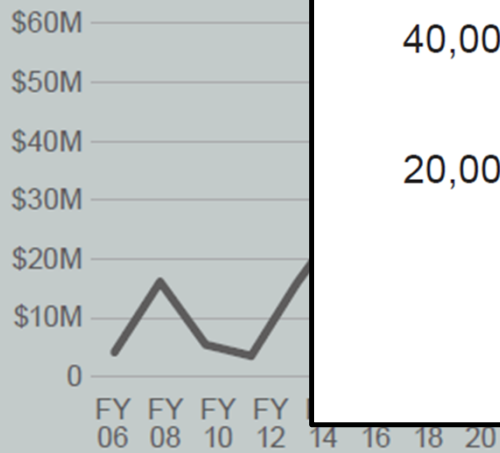
Fund Balances



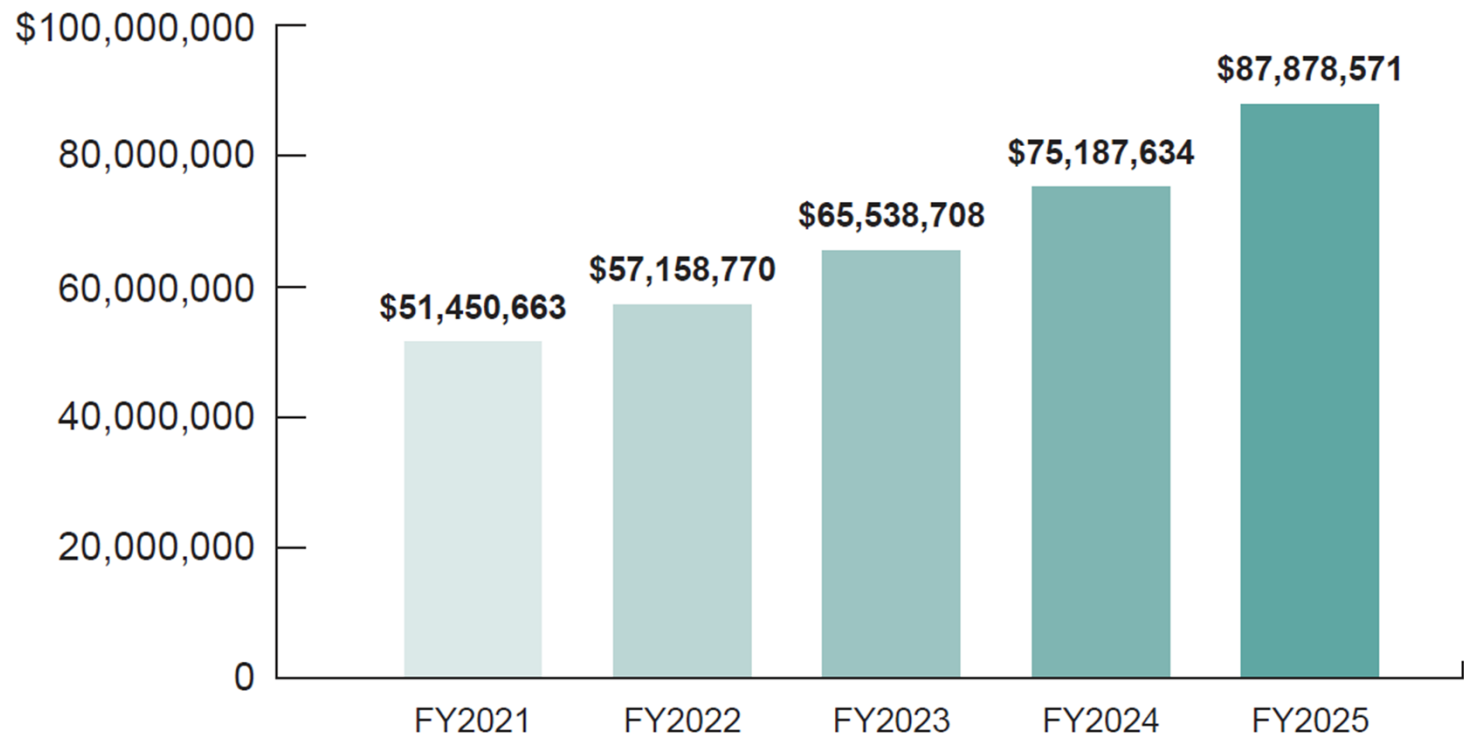
Redemption Rates



Fund Balance



DBCD Special Fund



Chapter 2

The Department of Health Has Not Operated the Deposit Beverage Container Program To Succeed

The Department of Health's passive oversight of the Deposit Beverage Container Program and its financial accounting system have hampered attainment of successful operations and placed the program's viability in question. Further, the greater environmental message and benefits of recycling have been overlooked in the redemption process. Immediate steps must be taken to improve the program's operational and financial management and public education to ensure its future.

Audit of the Deposit Beverage Container Program

A Report to the Governor and the Legislature of the State of Hawaii

Report No. 05-09
November 2005



THE AUDITOR
STATE OF HAWAII

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.

Audit of the Deposit Beverage Container Program

A Report to the
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and the
Legislature of
the State of
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Report No. 05-09
November 2005



THE AUDITOR
STATE OF HAWAII

Deposit Beverage Container Program still relies on self-reported data, still at risk

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

This is our fifth 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 that 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 systemic flaw, coupled with the absence of a detailed audit function, has exposed the program to abuse and risk of fraud since program inception.

From FY2013 through FY2014, the DBC Program paid \$2.6 million in deposit refunds for approximately 3.5 million pounds of recycled materials that cannot be accounted for. The Department of Health, which administers the program, has been aware of this flawed payment system since 2006 but has done little to address it, either with changes to the program or through enforcement of inspections. As a result, the program continues to be exposed to fraud, which may result in higher program costs and an unreliable reported redemption rate.

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

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

Report No. 13-08
November 2013



THE AUDITOR
STATE OF HAWAII

Program was unaware that distributor substantially underpaid the DBC Fund for more than six years

Distributors are required by law to report the number of deposit beverage containers sold/distributed and pay beverage container deposit and container fees to the program on a monthly basis. The program, however, continues to rely on unsupported amounts reported by distributors because it lacks a systematic verification or inspection process. We reviewed distributor receipts and found that one distributor—Whole Foods Market, Inc.—underpaid beverage container deposits and fees for more than six years, which went undetected by the program. For the six years it has been operating in Hawai'i, Whole Foods was paying the DBC fund 6¢ per case instead of 6¢ per container. Whole Foods reported that the underpayment is approximately \$34,000 for FY2012 through FY2014. The DBC Program has consulted with the Department of the Attorney General on whether the program will be able to collect the full amount of the six-year underpayment. The attorney general has advised that the program could collect the last two years, but likely not the prior four. These errors highlight the need for the program to closely monitor amounts reported and paid by distributors. Not doing so exposes the DBC Program to fraud.

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

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

Report No. 13-08
November 2013



THE AUDITOR
STATE OF HAWAII

Financial and Program Audit of the Deposit Beverage Container Program, June 30, 2016

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Report No. 17-02
March 2017



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THIS IS THE SIXTH biennial financial and program audit of the Deposit Beverage Container Program (the Program). We found, as we did in each of our previous audits, the Program relies on self-reported data from distributors and certified redemption centers and lacks adequate controls to monitor the accuracy and completeness of the information submitted by distributors and certified redemption centers. The lack of adequate controls exposes the Program to risks of underpayments by distributors and overpayments to certified redemption centers, either of which results in financial harm to the State.

The Program Relies on Self-Reported Data for Deposits and Container Fees Collected from Distributors

The Program does not have procedures in place to verify or inspect data that is reported on the Monthly Distribution Report Form submitted by the distributors. Distributors are required to maintain records reflecting the manufacture of their beverages in deposit beverage containers as well as the importation and exportation of deposit beverage containers under Section 342G-103, HRS.

Because distributors can pass on beverage container costs to retailers or consumers, distributors have an inherent incentive to under report sales/distributions of deposit beverage containers. Distributors have the opportunity to fraudulently or erroneously collect deposits and container fees from retailers and not remit the amounts to the Program. Based on the results of the current and previous audits, differences exist between the report totals on Monthly Distribution Report Form and the supporting records for those amounts. The majority of these differences indicate potential underpayments by distributors.

The Program Pays Redemption Centers Based on Unsupported Redemption Activity

The Program reimburses and pays for beverage containers redeemed by redemption centers on a monthly basis based on forms prepared by the redemption centers. We found that the Program does not require the redemption centers to provide any supporting records for the amounts reported and paid to the redemption centers. Consequently, the Program does not know if amounts reported and paid are appropriate.

Final and Program Audit of the
Department of Health's Deposit
Beverage Container Program,
2018

The Governor
Signature of
Hawaii

State of Hawaii



THE AUDITOR
Hawaii

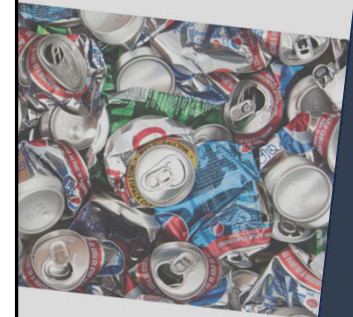
Redemption Centers and Locations Tested

Redemption Center	Island	Address
Atlas Recycling Center	Hawai'i	30 Makaala St., Hilo
Reynolds Recycling	Kaua'i	3343 Wilcox Rd., Lihue
Aloha Glass Recycling	Maui	74 Amala Pl., Kahului
C.M. Recycling LLC	Oahu	204 Sand Island Access Rd., Honolulu
ICR (Island Recycling)	Oahu	61-140 Kaomi Lp., Kapolei
Reynolds Recycling	Oahu	99-1160 Iwaena St., Aiea
Reynolds Recycling	Oahu	1106 University Ave., Honolulu
K & C Metal LLC	Oahu	94-037 Waipahu Depot Rd., Waipahu
RRR Recycling Services	Oahu	46-640 Alaloa St., Kaneohe
RRR Recycling Services	Oahu	47-705 Kamehameha Hwy., Kaneohe

Source: KMH LLP

Program Audit of the
Health's Deposit
Bottle Program,

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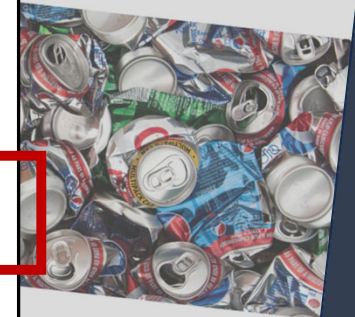
OR

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Reynolds Recycling	Oahu	1106 University Ave., Honolulu
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RRR Recycling Services	Oahu	46-640 Alaloa St., Kaneohe
RRR Recycling Services	Oahu	47-705 Kamehameha Hwy., Kaneohe

Source: KMH LLP

Program Audit of the
Health's Deposit
Bottle Program,



VISIT 1

Reynolds Recycling

1 NAME (print) [REDACTED]

CUSTOMER SIGNATURE: [Signature]

X NAME (print) [REDACTED]

SCRAP CODE	PURCHASE		AMOUNT PAID
	WEIGHT	PRICE	
01	32.8 LB@	1.25	41.00
71	5.1 LB@	1.25	6.38
80	12.8 LB@	1.25	16.00
80a	12.8 LB@	1.25	16.00
	LBS.	TOTAL \$	69.31
01	1.1 LB@	1.25	1.38
71	1.1 LB@	1.25	1.38
80	1.1 LB@	1.25	1.38

32.8 pounds of aluminum added after visit

12.8 pounds of plastic added after visit

5.1 X
0.12 =
0.61 *
0. C

\$69.31

Tape receipt redemption center gave to auditor when she redeemed glass and plastic containers.

VISIT 2

X NAME (print) [Signature]

5 CUSTOMER SIGNATURE: [Signature]

X NAME (print) [REDACTED]

6 CUSTOMER SIGNATURE: [Signature]

SCRAP CODE	PURCHASE		AMOUNT PAID
	WEIGHT	PRICE	
01	10.4 LB@	1.25	13.00
71	3.0 LB@	1.25	3.75
80	3.0 LB@	1.25	3.75
80a	3.0 LB@	1.25	3.75
	LBS.	TOTAL \$	14.99
01	3.6 LB@	1.25	4.50
71	3.6 LB@	1.25	4.50
80	3.6 LB@	1.25	4.50
80a	3.6 LB@	1.25	4.50

Additional \$11.04 added to receipt log

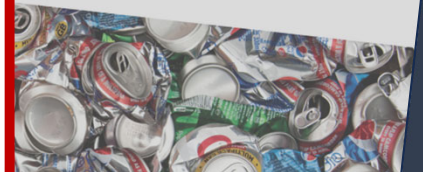
3.0 X
1.315 =
3.95 *
0. C

\$14.99

Source: Department of Health, KMH

Staff auditor's signature

Hawai'i



**Financial and Program Audit of the
Department of Health's Deposit
Beverage Container Program,
June 30, 2020**

A Report to the Governor
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Report No. 21-13
December 2021

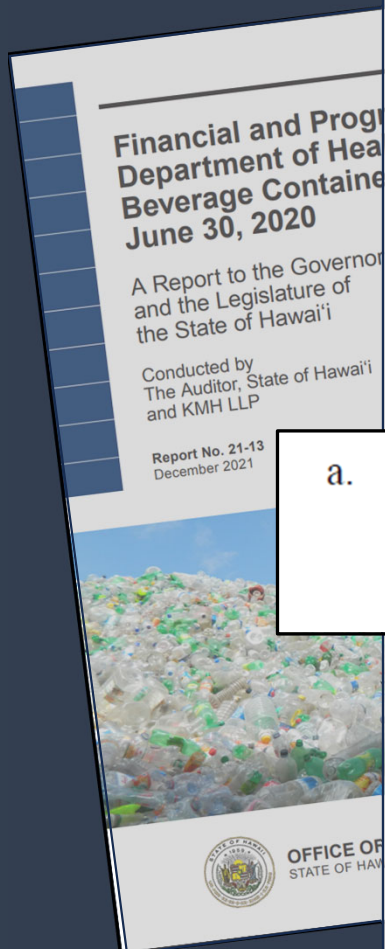


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STATE OF HAWAII

Why has there been little action taken in response to recurring findings?

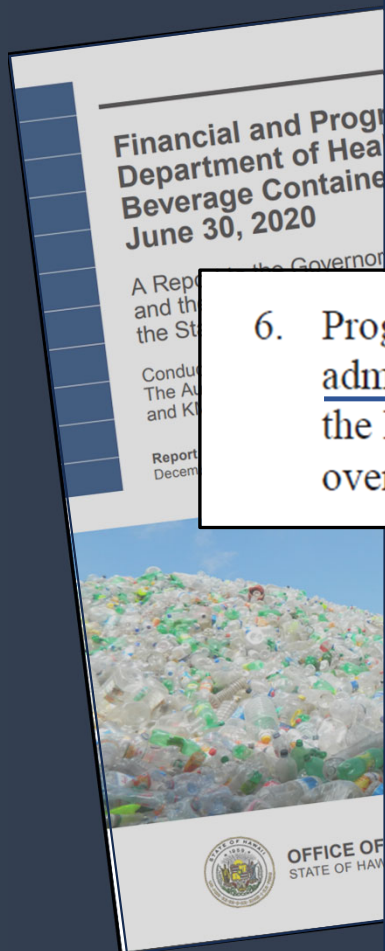
According to DOH and Program officials, the Program has been significantly understaffed, especially in key positions such as the Solid Waste Coordinator, who is responsible for the day-to-day operations of the Program, as well as several accounting positions. While the Deputy Director for Environmental Health acknowledged that the previous Solid Waste Coordinator had been in the position for more than five years (and there for at least two audits of the Program), adequate time to address the Program's chronic issues, those problems were not addressed.

We note that the core findings of this and the seven previous audit reports – the overreliance on self-reported data from distributors and redemption centers – are foundational and systemic issues that Program staff (no matter how few) can address on their own. Oversight here should not be ignored simply because the Program is short-staffed, especially in this case where the statute explicitly authorizes the department to use the Special Fund to “[f]und administrative, audit, and compliance activities” and to “contract for the services of a third party to administer the [Program].”



Recommendations

1. Department management should establish measurable performance standards, state what success looks like, set timelines, develop an action plan, and report findings regularly. The audit of 17-02, and the objectives of the program should be the object of the audit.
2. DOH management should establish internal controls, including policies and procedures, to ensure that Program management is addressing the issues reported in prior audit reports and managing the Program appropriately. Those internal controls should be designed to provide DOH management with reasonable assurance that the Program is achieving its statutory purpose and administered effectively and efficiently as well as meeting any objectives established by DOH management.
 - a. A process to select distributor and redemption center reports submitted to the Program to audit on a periodic basis. That process should be risk-based and the Program should consider factors such as the number of transactions, prior findings
4. Program management should require certain distributors to develop and submit to the Program for approval an internal control process to provide reasonable assurance that the information self-reported on the Monthly Distribution Report Form is accurate and that the distributor maintains sufficient and appropriate records to support the reported information. Program management should amend the Program's administrative rules, if necessary.



Recommendations

1. Department of Health should develop measurable objectives for the Program, state what is to be accomplished, timelines for completion, an action plan as well as findings reported in the audits of 17-02, and 15-02, and the objectives as approved by the Legislature.
5. Program management should develop policies and procedures to direct and guide staff in their respective Program responsibilities. The policies and procedures should be documented and updated, as necessary.
6. Program management should retain the services of a third party to administer the Program, as authorized under 342G-106, HRS, if the Program does not have sufficient staff or expertise to actively oversee its activities and implement the audit recommendations.
7. For each redemption center, Program management should annually reconcile the weight of the materials redeemed (for which the Program reimbursed the container deposit and paid the handling fee) with the weight ticket or tickets for each material type generated by the certified recycling facility. While we recognize that the materials redeemed may not be the same materials received in the audits, Program management should retain an independent auditing organization, as authorized under 342G-104(b)(1), HRS, to perform the audits if the Program does not have sufficient staff or expertise to perform that work.

A BILL FOR AN ACT

RELATING TO RECYCLING.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The legislature finds that the office of the
2 auditor conducts a financial and program audit of the department
3 of health's deposit beverage container program every other year.
4 Time after time, these audits demonstrate the program's failure

5 to d
6 comp
7 cont
8 as d
9 With
10 data
11 paym

12 As a result, these audits have found inaccuracies and possible
13 fraudulent reporting in the data used in these calculations. In
14 the auditor's 2019 report to the legislature, one of the
15 recommendations made for the deposit beverage container program
16 management was to develop a risk-based process to select, for

Act 12 (2022)
(eff. April 27, 2022)

3 Therefore, the purpose of this Act is to require the
4 department of health to develop a risk-based process to help
5 remedy the flaws in the deposit beverage container program.

A BILL FOR

RELATING TO RECYCLING.

BE IT ENACTED BY THE LEGISLATURE

1 SECTION 1. The legislature
2 auditor conducts a financial and
3 of health's deposit beverage con
4 Time after time, these audits de
5 to develop and execute procedure
6 completeness of data used to sup
7 container fees paid to the progr
8 as deposits and handling fees pa
9 Without such procedures, the pro
10 data and accepts that cash recei
11 payments made to redemption cent
12 As a result, these audits have f
13 fraudulent reporting in the data
14 the auditor's 2019 report to the
15 recommendations made for the dep
16 management was to develop a risk-based process to select, for

[§342G-121.5] Risk-based selection process; audit. (a) The department shall develop a risk-based process to select, for periodic audit, certain deposit beverage distributor and redemption center reports submitted to the deposit beverage container program. The department may hire personnel or external consultants to perform the audits. In developing a risk-based process to audit certain deposit beverage distributor and redemption center reports, the department shall:

- (1) Consider a variety of risk factors, including but not limited to the amount of money transacted, prior audit findings, and frequency of the deposit beverage distributor's or redemption center's prior audits;
- (2) Require deposit beverage distributors to send monthly or semi-annual distribution reports and supporting records, such as schedules of invoices, shipping documents, point-of-sale reports, and other documentation as required by the department, to the deposit beverage container program; and
- (3) Ensure that the audit process includes a risk assessment derived from deposit beverage distributor and redemption center data based on the reports submitted, including but not limited to carrying out analytics and trend analyses to target certain deposit beverage distributors and redemption centers having unusual fluctuations.

A BILL FOR AN ACT

RELATING TO RECYCLING.

BE IT ENACTED BY THE LEGISLATURE:

1 SECTION 1. The 1
2 auditor conducts a fin
3 of health's deposit be
4 Time after time, these
5 to develop and execute
6 completeness of data u
7 container fees paid to
8 as deposits and handli
9 Without such procedure
10 data and accepts that
11 payments made to redem
12 As a result, these aud
13 fraudulent reporting i
14 the auditor's 2019 rep
15 recommendations made for the deposit beverage container program
16 management was to develop a risk-based process to select, for

(b) The department shall:

(1) Summarize the results of the deposit beverage distributor and redemption center audits and assess whether enforcement actions should be considered to ensure that the amounts that are being reported are accurate;

(2) Consider conducting follow-up audits; and

(3) Consider publicly announcing violations.

(c) All deposit beverage distributors shall:

(1) Develop and submit to the deposit beverage container program for approval an internal control process to ensure that the monthly or semi-annual distribution report forms contain accurate data and that adequate records are maintained; and

(2) Obtain independent audits for years ending in an odd number. [L 2022, c 12, §2]

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

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

Conducted by
The Auditor, State of Hawai'i
and KMH LLP

Report No. 25-08
May 2025



OFFICE OF THE AUDITOR
STATE OF HAWAII

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.

CHAPTER 342G INTEGRATED SOLID WASTE MANAGEMENT

PART I. GENERAL

SECTION

- 342G-1 DEFINITIONS
- 342G-2 SOLID WASTE
- 342G-3 GOALS

PART II. ADMINISTRATION

- 342G-11 ADMINISTRATION
- 342G-12 OFFICE OF SOLID WASTE
- 342G-12.5 RECYCLING
- 342G-13 POWERS AND DUTIES
- 342G-14 POWERS AND DUTIES
- 342G-15 ANNUAL REPORT

[§342G-106] Contract for administrative services. The department may contract the services of a third party to administer the deposit beverage container program under this part. [L 2002, c 176, pt of §2]

- (b) Moneys in the fund shall be used to reimburse refund values and pay handling fees to redemption centers. The department may also use the money to:
- (1) Fund administrative, audit, and compliance activities associated with collection and payment of the deposits and handling fees of the deposit beverage container fee and deposit program;
 - (2) Conduct recycling education and demonstration projects;
 - (3) Promote recyclable market development activities;
 - (4) Support the handling and transportation of the deposit beverage containers to end-markets;
 - (5) Hire personnel to oversee the implementation of the deposit beverage container fee and deposit program, including permitting and enforcement activities; and
 - (6) Fund associated office expenses.

Only in Hawai'i

In most states, responsibility for the financing and administration of beverage container deposit programs lies with the private sector.

ONLY 10 STATES currently have beverage container deposit programs. In most states, responsibility for container collection and recycling, including most financial transactions and administration, lies with the private sector. In these systems, retailers are required to accept returned empty bottles and cans from consumers, and distributors and manufacturers are directly responsible for the collection from retailers, processing, and recycling of their containers.

In Oregon and Iowa, distributors keep all unclaimed deposits, while in Connecticut, Massachusetts, New York, Maine, Michigan, and Vermont, distributors and bottlers are required to turn over all or a portion of unclaimed deposits to the state.

Hawai'i and California take active roles in their beverage container deposit programs, collecting and distributing payments from a state-managed fund while overseeing collection and recycling activities. But state involvement has its trade-offs, the first being cost.

According to a 2015 analysis of California's Beverage Container Recycling Program by California's Legislative Auditor's Office, programs in Oregon, Connecticut, Vermont, Massachusetts, Iowa, and Michigan each employ three or fewer state staff. In contrast, California's program had 137 positions at the time; however, the analysis points out that states with significantly fewer state staff have limited knowledge of beverage container recycling rates and rely on private data to determine program compliance and success. In addition, California's program performs other activities such as data collection and enforcement, administers grant programs, and invests in the development of new recycling technology and collection methods.

DOH's Office of Solid Waste Management has eight positions dedicated to the Program; however, unlike California, Hawai'i's program neither collects its own data to determine program compliance and success, nor does it conduct enforcement activities to ensure compliance.

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

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