

JAN 28 2026

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# A BILL FOR AN ACT

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RELATING TO INDEPENDENT AUDITS OF DEPOSIT BEVERAGE DISTRIBUTORS.

**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 The auditor's 2019 report to the legislature reported accounting  
5 exceptions in records provided by six of twenty-four deposit  
6 beverage distributors. One of the recommendations made by the  
7 auditor was to increase deposit beverage distributors'  
8 accountability for information provided to the deposit beverage  
9 container program by requiring deposit beverage distributors to  
10 obtain independent audits for years ending in odd numbers. The  
11 auditor's recommendation for deposit beverage distributors to  
12 obtain independent audits for years ending in odd numbers was  
13 adopted by the legislature in Act 12, Session Laws of Hawaii  
14 2022.

15       The legislature further finds that the independent audit  
16 requirement caused financial hardship to small businesses. In  
17 some cases, the cost of obtaining an independent audit exceeded

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1 the amount of deposits and container fees paid by a distributor  
2 to the department of health.

3 Therefore, the purpose of this Act is to amend the deposit  
4 beverage distributor independent audit requirement to mitigate  
5 the financial impact to small businesses.

6 SECTION 2. Chapter 342G, Hawaii Revised Statutes, is  
7 amended by adding to part VIII a new section to be appropriately  
8 designated and to read as follows:

9 "§342G- Independent audit. (a) Deposit beverage  
10 distributors who distribute at least seventy-five million  
11 deposit beverage containers in a calendar year ending in an even  
12 number shall obtain an independent audit for the calendar year  
13 after the calendar year ending in an even number.

14 (b) Deposit beverage distributors who distribute at least  
15 two million but fewer than seventy-five million deposit beverage  
16 containers in a calendar year ending in four or nine shall  
17 obtain independent audits for the calendar year after the  
18 calendar year ending in four or nine.

19 (c) Deposit beverage distributors who distribute fewer  
20 than two million deposit beverage containers in a calendar year  
21 shall be exempt from the requirements of this section.

22 (d) At a minimum, each independent audit shall:

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- 1        (1) Assess the accuracy of inventory reports and payments  
2        to the department required by section 342G-105;  
3        (2) Assess the accuracy of fees collected in sales,  
4        transfers, or donations of deposit beverage containers  
5        to or from other deposit beverage distributors and  
6        dealers;  
7        (3) Contain a certification that the independent audit is  
8        accurate to the best of the independent auditor's  
9        knowledge and ability; and  
10       (4) Be submitted to the department by September 30 of the  
11       calendar year after the deposit beverage distributor  
12       is required to obtain the independent audit."

13       SECTION 3. Section 342G-101, Hawaii Revised Statutes, is  
14       amended by adding a new definition to be appropriately inserted  
15       and to read as follows:

16       "Distribute" means to manufacture beverages in deposit  
17       beverage containers in this State, or to import and engage in  
18       the sale of filled deposit beverage containers to a dealer or  
19       consumer."

20       SECTION 4. Section 342G-121.5, Hawaii Revised Statutes, is  
21       amended to read as follows:

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1           " [f] §342G-121.5 [f] **Risk-based** [~~selection process,~~] **audit.**

2       (a) The department shall develop a risk-based process to  
3       select, for periodic audit, certain deposit beverage distributor  
4       and redemption center reports submitted to the deposit beverage  
5       container program. The department may hire personnel or  
6       external consultants to perform the audits. In developing a  
7       risk-based process to audit certain deposit beverage distributor  
8       and redemption center reports, the department shall:

9           (1) Consider a variety of risk factors, including but not  
10           limited to the amount of money transacted, prior audit  
11           findings, and frequency of the deposit beverage  
12           distributor's or redemption center's prior audits;

13          (2) Require deposit beverage distributors to send monthly  
14          or semi-annual distribution reports and supporting  
15          records, such as schedules of invoices, shipping  
16          documents, point-of-sale reports, and other  
17          documentation as required by the department, to the  
18          deposit beverage container program; and

19          (3) Ensure that the audit process includes a risk  
20          assessment derived from deposit beverage distributor  
21          and redemption center data based on the reports  
22          submitted, including but not limited to carrying out

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1           analytics and trend analyses to target certain deposit  
2           beverage distributors and redemption centers having  
3           unusual fluctuations.

4       (b) The department shall:

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

10      (2) Consider conducting follow-up audits; and

11      (3) Consider publicly announcing violations.

12      (c) All deposit beverage distributors shall[+

13      ~~(1) Develop~~ develop and submit to the deposit beverage  
14      container program for approval an internal control process to  
15      ensure that the monthly or semi-annual distribution report forms  
16      contain accurate data and that adequate records are maintained[+  
17      and

18      ~~(2) Obtain independent audits for years ending in an odd~~  
19      ~~number]."~~

20           SECTION 5. Statutory material to be repealed is bracketed  
21      and stricken. New statutory material is underscored.

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1       SECTION 6.   This Act shall take effect upon its approval.

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INTRODUCED BY:

  
BY REQUEST

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**Report Title:**

Department of Health; Deposit Beverage Container Program;  
Independent Audit; Deposit Beverage Distributor

**Description:**

Limits the independent audit requirement to deposit beverage distributors who distribute 2,000,000 or more deposit beverage containers a year. Identifies frequency of obtaining and submitting independent audits based on quantities of deposit beverage containers imported, manufactured, or distributed. Creates minimum requirements for independent audits.

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*

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## JUSTIFICATION SHEET

DEPARTMENT: Health

TITLE: A BILL FOR AN ACT RELATING TO INDEPENDENT AUDITS OF DEPOSIT BEVERAGE DISTRIBUTORS.

PURPOSE: To limit the independent audit requirement to deposit beverage distributors who manufacture, import, or sell two million or more filled deposit beverage containers (DBC's) in the State and in a calendar year; and also specify the frequency of independent audits based on the number of DBC's distributed, and create minimum requirements for independent audits.

MEANS: Add one new section to part VIII of chapter 342G, Hawaii Revised Statutes (HRS), and amend sections 342G-101 and 342G-121.5, HRS.

JUSTIFICATION: Section 342G-121.5(c)(2), HRS, currently requires all deposit beverage container distributors to obtain independent audits every other year. This requirement was adopted from Recommendation 3 of the Office of the Auditor's 2018 Financial and Program Audit of the Department of Health's Deposit Beverage Container Program.

For distributors who manufacture, import, or sell fewer than two million filled DBC's per year in the State, the cost of each audit is excessive in comparison to the amount of deposits and container fees paid to the department. In some cases, the cost of the independent audit exceeds the amount of deposits and container fees paid to the department. This bill is intended to balance the State's ability to ensure proper payment to the program as identified by the Auditor, with the financial impact on affected distributors.

The bill proposes tiering the independent audit requirement based on the number of DBC's manufactured, imported, or sold per



calendar year. Based on fiscal year 2024-2025 deposit beverage distributor data, this bill would require twenty-four of 322 deposit beverage distributors to submit annual audits, which represents approximately 96.6 percent of DBC program revenue in that year.

In fiscal year 2024-2025:

- Five deposit beverage distributors manufactured, or imported and sold seventy-five million or more filled DBCs in the State.
- Nineteen distributors manufactured, or imported and sold at least two million but fewer than 75 million filled DBCs in the State.
- 298 distributors manufactured, or imported and sold fewer than two million filled DBCs in the State.

Impact on the public: None.

Impact on the department and other agencies:  
The independent audits will aid the Department in determining whether distributors are making accurate deposit and container fee payments to the Department.

GENERAL FUND:

None.

OTHER FUNDS:

Independent audit findings of inaccurate deposit and container fee payments will affect revenue in the deposit beverage container deposit special fund.

PPBS PROGRAM  
DESIGNATION:

HTH 840.

OTHER AFFECTED  
AGENCIES:

None.

EFFECTIVE DATE:

Upon approval.