
A BILL FOR AN ACT

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



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 on small businesses.

6 SECTION 2. Chapter 342G, Hawaii Revised Statutes, is
7 amended by adding a new section to part VIII 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 five million but fewer than seventy-five million deposit
16 beverage containers in a calendar year ending in four or nine
17 shall obtain an independent audit for the calendar year after
18 the calendar year ending in four or nine.

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



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

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

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



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

3 "[~~§~~342G-121.5] Risk-based [~~selection process,~~] audit.

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

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

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



1 (3) Ensure that the audit process includes a risk
2 assessment derived from deposit beverage distributor
3 and redemption center data based on the reports
4 submitted, including but not limited to carrying out
5 analytics and trend analyses to target certain deposit
6 beverage distributors and redemption centers having
7 unusual fluctuations[-]; and

8 (4) Develop a web-based system to allow for online
9 submission by deposit beverage distributors of the
10 reports required by this chapter.

11 (b) The department shall:

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

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

18 (3) Consider publicly announcing violations.

19 (c) All deposit beverage distributors shall[+]

20 ~~(1) Develop~~ develop and submit to the deposit beverage
21 container program for approval an internal control process to



1 ensure that the monthly or semi-annual distribution report forms
2 contain accurate data and that adequate records are maintained[+
3 and

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

6 SECTION 5. Statutory material to be repealed is bracketed
7 and stricken. New statutory material is underscored.

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



Report Title:

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

Description:

Limits the independent audit requirement under the State's Deposit Beverage Container Program to deposit beverage distributors who distribute 5 million or more deposit beverage containers a year. Identifies frequency of obtaining and submitting independent audits based on quantities of deposit beverage containers distributed. Defines "distribute" to include the manufacture, import, and sale of deposit beverage containers. Creates minimum requirements for independent audits. (CD1)

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