
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 to 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 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 five million deposit beverage containers in a calendar year
21 shall be exempt from the requirements of this section.



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

(1) Assess the accuracy of inventory reports and payments
to the department required by section 342G-105;

(2) Assess the accuracy of fees collected in sales,
transfers, or donations of deposit beverage containers
to or from other deposit beverage distributors and
dealers;

(3) Contain a certification that the independent audit is
accurate to the best of the independent auditor's
knowledge and ability; and

(4) Be submitted to the department by September 30 of the
calendar year after the deposit beverage distributor
is required to obtain the independent audit."

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

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



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

"[+]§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[-]; and

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

(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~~ develop and submit to the deposit beverage 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 on January 30, 2050.



Report Title:

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

Description:

Limits the independent audit requirement under the State's Deposit Beverage Container Program to deposit beverage distributors who distribute 5,000,000 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. Effective 1/30/2050. (SD1)

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