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TESTIMONY
OF
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TO THE
SENATE COMMITTEE
ON
TOURISM AND GOVERNMENT OPERATIONS

January 22, 2008

Hydrogen Investment Capital Special Fund and
Renewal Hydrogen Management Services
and the
State Procurement Office

Chair Nishihara, Vice Chair Kim and committee members, thank you for the opportunity to brief the committee on the State Procurement Office's operations.

Public purchasing is more complex today. No longer a clerical function conducted by untrained personnel within a governmental agency. Today, purchasing personnel are faced with a rapidly changing environment of emerging technologies, diversity of products and choices, environmental issues on green buying to recycled products, and the need for quality products and services, best value and not low price. Other issues that confront purchasing personnel are fairness and transparency, while maximizing on competition, and balancing budgets, while meeting the need for flexibility and responsiveness.

- 1) The National Institute of Governmental Purchasing defines 'public purchasing' as the process of economically obtaining supplies and services for public purpose and use. However, purchasing encompasses the complete cycle from buying, to accountability, to disposal of surplus property. The Procurement Policy Board is statutorily tasked to "...adopts rules governing the procurement, management, control, and disposal of any and all goods, services, and construction

The **Procurement Policy Board** adopts, amends, or repeals, administrative rules in accordance with Chapter 91, HRS, to carry out and effectuate the purpose and provisions of Chapter 103D and 103F, HRS, governing the procurement, management, control, and disposal of any and all goods, services, construction, and purchase of health and human services. Issues interim rules for chapter 103D, HRS, by procurement directives. Considers and decides on matters of policy, including those referred to it by a chief procurement officer. Has the authority to audit and monitor the implementation of its rules and the requirements of Chapters 103D and 103F, HRS.

The **State Procurement Office (SPO)** plans, organizes, directs, and coordinates the various procurement activities within its authority under Chapter 103D and Chapter 103F, of the Hawaii Revised Statutes. The program's mission is to promote economy, efficiency, effectiveness, and impartiality in procurement for State and county governments through development, implementation and maintenance of policies and procedures that provide for broad-based competition, accessibility to government contracts, fiscal integrity and responsibility in the procurement process; to procure or supervise the procurement to meet the State's needs through economical purchases and inventory control.

The SPO develops rules, policies and procedures to implement the procurement law for all governmental bodies, including the several counties; provides coordination, review, analysis, implementation, and oversight services for various procurement projects; serves as technical resource, provides training and technical assistance to ensure compliance with procurement laws.

Purchasing Section includes seven staff members, responsible to procure and assist in the administration of contracts for commodities and services on behalf of State agencies requesting procurement assistance; procures, issues and administers a wide range of price list and vendor list contracts for the agencies of the Executive branch and other participating purchasing jurisdictions.

Price List/Vendor List Contracts

The State Procurement Office (SPO) procures and manages approximately 60 price/vendor list contracts at any given time, totaling an estimated \$30 million dollars, on behalf of Executive branch agencies, the University of Hawaii, Hawaii Health System Corporation, and any of the other seventeen procurement jurisdictions that commit to participate in the contracts issued by the State Procurement Office.

Participating agencies benefit by obtaining price discounts through volume purchases. In addition there are the efficiency savings, the administrative and contract management savings realized by each agency or jurisdiction from having to solicit individual contracts, resulting in multiple contracts for the same commodity or service.

A **price list** is issued for a specified time period for commonly used goods or services, sets contractual pricing, competitively solicited, unless available from a single source or from a governmental institution such as the Hawaii Correctional Industries. In addition to State executive branch agencies, the University of Hawaii, Hawaii Health System Corporation, and any number of the seventeen purchasing jurisdictions utilize the price lists issued by the State Procurement Office.

A **vendor list** is issued for a specified time period and lists qualified vendors, competitively solicited, to provide commonly used goods or services, usually at discount rates from a vendor's established catalog or product lists. The number of vendor lists continues to increase as the State Procurement Office strives to provide purchasing agencies with contracts that appropriately allow selection from a range of goods or services provided by qualified vendors. Examples of vendor lists include copiers and facsimile equipment, office supplies, wireless service, computers, printers, etc.

The **Partners in Employment Program (PEP)** is a partnership between State government and Community Rehabilitation Programs (CRPs) to provide employment for persons with disabilities. The program encompasses a wide range of goods and services provided by qualified CRPs, and authorizes state agencies to contract directly with the CRPs without advertising or calling for offers as required by section 103D-1010, HRS.

The **Western States Contracting Alliance (WSCA)** is a multi-state cooperative contracting consortium comprised of 15 western states, of which Hawaii is a participating member. The purpose of WSCA is to achieve cost effective and efficient acquisition of quality products and services by combining the purchasing power of the member states including county and municipal governments. More information on this organization is available at www.aboutwsca.org.

Hawaii Electronic Procurement System (HePS)

HePS is the electronic procurement system for the State of Hawaii for issuing solicitations, receiving responses, and making awards while providing an open, fair and documented process. HePS is being utilized for small purchases by executive departments, the Judiciary and Hawaii State Hospital Corporation. The State Procurement Office is utilizing HePS for larger procurements as well. HePS includes:

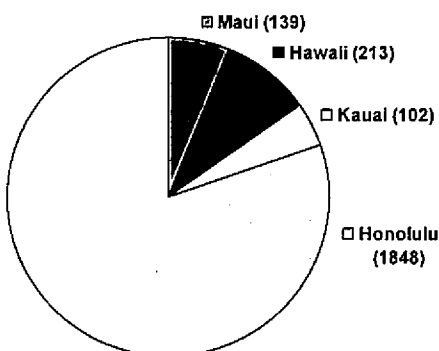
- A. **Vendor registration:** Vendors register on HePS by entering standard information such as company name and address, and creating a profile identifying the categories of goods, services or construction the vendor provides.
- B. **Electronic Solicitations:** Government purchasers (called buyers in HePS) enter their solicitation on electronic forms and may attach files, if needed. Once released, they are posted on the internet via HePS and are available in a standard format to vendors registered on HePS.
- C. **E-mail notification:** Each evening e-mail notifications are sent to vendors registered for the categories of goods and services being procured, providing a link directly to the solicitation. Amendments are also issued electronically with e-mail notifications sent to vendors.
- D. **Submission of electronic quotes:** Vendors submit quotes electronically in as few as three clicks and may also add comments or attach files as appropriate. A vendor may amend the quote electronically as many times as necessary up to the submission due date and time.
- E. **Electronic award:** Once a solicitation closes, the HePS buyer reviews the submissions. When a decision is made, the buyer notifies the vendor on HePS and the awarded vendor receives a notice of award in an e-mail. Non-selected offerors are also notified.

- F. **Records are maintained in HePS and are searchable:** Each step of the procurement is recorded including dates issued, amendments, responses received and awards made.

Advantages of the HePS include:

- **Small business friendly**
 - Vendors have more opportunities to submit quotes for small purchases. Prior to HePS, small purchases were procured by requesting quotes from three vendors. Vendors now have knowledge of requests for quotes they would have previously had no knowledge of. It is a more efficient and fair way to do business.
 - Vendors receive notifications of solicitations by e-mail.
 - Vendors can search the award abstracts for which they have submitted quotes.

Number of Businesses in HePS by County 12/31/07 Total 2302



- **Open process:** Vendors who have submitted quotes are notified via e-mail when the solicitation is awarded and have access to an abstract listing all vendor names and their quotes.
- **Record keeping and Documentation/Search Function:** All solicitations/awards are kept in one place on HePS. The system documents all actions taken in HePS. Government purchasers can search HePS prior to solicitation to ensure vendors are registered for the goods, services or construction they need to procure ensuring better competition.
- **Sharing Information/Streamlining:** Solicitations that have been issued in the past may be searched, restaged, amended as necessary and reissued when new needs arise. HePS buyers can search for and restage any solicitation issued on HePS, not just their own. This allows a sharing of knowledge and keeps buyers from having to "reinvent the wheel."
- **pCard enabled:** The purchasing agency may utilize a pCard (similar to a credit card) on HePS rather than issuing a purchase order thus speeding up payment to vendors.
- **Compliance:** HePS has increased compliance with the statutes and rules due to its open process, the standardization of utilizing electronic forms, etc. Each department administrator has access to reports that are current including all solicitations, history of awards and solicitations that are awaiting award.

Policy and Rules Compliance Section includes three staff members responsible to administer and manage functional training; program directives and guidance; various oversight functions such as compliance, exemptions and waivers; new processes such as the purchasing card; a multitude of information sources relating to procurement awards, contracts databases, training manuals and flowcharts, procurement forms, procurement notices, and administrative rules are some of the services provided.

Training and Compliance

Prepare legislation, administrative rules, procedures and policies. Researches, analyzes, reviews, drafts and processes for revisions to the procurement code and its rules; procurement procedures and policies for submission to the Administrator and the CPO for review and concurrence and presentation to the Procurement Policy Board for adoption. Prepares the final rules for consideration and promulgation; develops Procurements Directives or Circulars for issuance of rules, policies or procedures. Performs all required activities necessary for the formal promulgation and adoption of rules.

Staff organizes, coordinates, prepares and conducts statewide training on the procurement statutes, rules, policies and procedures to all purchasing personnel statewide, including other jurisdictions.

Procurement Manual. Prepares, reviews, and revises a statewide procurement manual for purchasing agencies. Reviews and recommends revisions, performs comparative analyses of procurement practices in other jurisdictions.

Hawaii Products program. Provides and performs as technical expert and resource to manage the review, analysis, recommendation for the Hawaii Products program, including forms and documents, responses to applicants, conduct workshops and training.

Purchasing Card (pCard) Program

The pCard program is similar to a credit card, designed to streamline the state and county government's small purchase payment process. It replaces the laborious and costly purchase order system. The program improves management controls, provides expenditure data reports, increases purchasing efficiency, and allows payment to vendors within a few days of purchase.

pCard benefits to the State include:

- Eliminates purchase orders and processing of individual invoices.
- Eliminates individual vendor checks – one monthly check to the financial institution.
- Increases efficiency for the state and business community.
- Reduce the expense for processing a purchase order by an average of \$68.00 per purchase order (report by the National Association of pCard Professionals).
- Reduces late payment fees.

pCard benefits to businesses include:

- Expedient payment within 3 days versus 30 days.
- Reduce cost by eliminating invoicing, accounts receivables, and deposits.
- Enhance customer relations and generates more business.
- Improves businesses cash flow.
- Increases efficiency for the business community.

Participants in the program include all executive branch departments (except UH), Counties of Hawaii, Kauai, Maui, Honolulu, Judiciary, Hawaii Health System Corp, Honolulu Board of Water, and Kauai Dept. of Water, Senate, House of Representatives.

The pilot program launched in 2003, with the first full calendar year of data in 2004. The program started conservatively, but grew in momentum in each of the subsequent years.

	Number of Cards	Number of Transactions	Spend Volume (millions)
Calendar Y2004			
Executive	500	12,000	\$2
Other Jurisdictions	600	20,000	\$3
Calendar Y2007			
Executive	1900	171,000	\$57
Other Jurisdictions	1600	117,000	\$37

Executive Branch agencies have realized a savings of approximately \$4.1 million, just in the number of fewer purchase orders (\$2,500 and under) processed in the four-year period from 2004 to 2007 (60,000 fewer P.O. issued x \$68.00 cost to process a P.O.).

The pCard program continues to improve and grow as new products and technology becomes available, and vendors rave over the availability as opposed to the paper purchase order process.

An **Emergency pCard program** was developed in 2006 (Ref. Procurement Circular 2003-06, Amend 8) to respond to a governor's proclamation of a state of emergency, as an effective and convenient tool to support agencies in emergency situations, since disasters and emergencies occur with little or no warning, and frequently require purchases outside normal procurement parameters. A customized pre-arranged emergency pCard plan handles purchases during emergency conditions expeditiously.

A **Declining Balance pCard program** proposal was provided to the Dept of Education for use by teachers. The features of a 'declining balance card' are:

- Similar to a gift card rather than a traditional credit card;
- Value of the declining balance card is set to a specific dollar amount for each cardholder, and used until the value is depleted;
- Expiration dates may be assigned to the card allowing the issuance of cards for specific periods (monthly, quarterly, annually);

Access Hawaii Committee. The SPO assists in support to the Access Hawaii Committee for the management of the portal; provides planning and managements of portal services to the program, including the Hawaii Compliance Express.

SPO Website at <http://www.spo.hawaii.gov/>

To expedite processing, all SPO forms and updated information on procurement are available at www.spo.hawaii.gov. On the website, SPO also maintains flowcharts, templates, and instructions to assist state personnel with their procurements.

Professional Services Awards posting to the Internet began May 2000. Awards of \$5,000 or more are posted on the website for a period of 37 months from date of posting by the agency. As of January 2007, there are 2,236 reported awards.

Jurisdictions:	City and County of Honolulu	\$176,255,554
	Kauai Department of Water	\$ 4,231,406
	State Executive Departments	\$375,711,567
	Legislative Auditor Office	\$ 9,154,000

Primary information includes - Date of award, awardee, project services description and dollar amount. Secondary information includes - Project name, posting date, names submitted for selection, name of purchasing agency, category of professional service, agency contact name, telephone number, and e-mail address, name and title of official making the selection, relationship between principals and the official making the selection, review committee names, and selection committee names.

The system Search feature is by agency, category, awardee name, and services/project name.

Procurement Reporting System (PRS) posting to the Internet began March 2006, to bring transparency to government with the issuance of Gov Lingle's EM 06-01 on *Transparency in Procurement*, and implementation guidelines and procedures in Procurement Circular 2006-01 to require Executive agencies to post contract award information on-line. Award information is available at <http://www.hawaii.gov/spo2/>, and includes awards:

\$2,500 or more:

1. Exempt procurements
2. Sole Source
3. Emergency Procurements

\$15,000 or more:

1. Small purchases

All dollar amounts:

1. Competitive Sealed Bids (Invitation for Bids)
2. Competitive Sealed Proposals (Request for Proposals)

As of January 2007, there are 4,884 posted awards:

Method of Procurement	Total Awards
Emergency Procurements	250
Professional Services	2,236
Competitive Sealed Bids	1,037
Competitive Sealed Proposals	424
Small Purchases	670
Sole Source	267

Primary information includes - Contract/PO No., procurement type, vendor, department, and description. Secondary information includes - Notice of award date, start date, end date, original award amount, final contract amount, contact person's name, phone and e-mail address.

The PRS system Search feature is by contract/PO no., method, department, division, vendor, and goods/services.

Procurement Notices System (PNS) posting on the Internet provides the public with a single location for viewing all procurement notices. As of July 2003, all HRS Chapter 103D and 103F procurement notices are posted to <http://www2.state.hi.us/bidapps/>.

City and County of Honolulu and Honolulu Board of Water Supply are not posting on this site.

- ◆ Chapter 103D notices for procurements of goods, services, and construction, for IFB, RFP, and professional services procurements shall be as follows:

Mandatory: Notice posted on the Internet at the above website.

Optional: Notice published in the newspaper at the option of the agency.

- ◆ Chapter 103F notices for procurements of health and human services, for RFP, treatment and restrictive purchase of services shall be as follows:

Mandatory: Notice published in the newspaper and notice posted on the Internet at the above website.

Hawaii Compliance Express (HCE) system was launched September 2005 to assist potential contractors on verification of compliance with state laws prior to receiving contract awards. The system replaced the 3 paper certificates vendors are required to submit for: *Tax Clearance Certificate* from the Department of Taxation and the Internal Revenue Services, *Certificate of Compliance* from the Department of Labor and Industrial Relations, and *Certificate of Good Standing* from the Department of Commerce and Consumer Affairs. Vendors access the HCE thru the State portal to register, in lieu of standing in line at each regulatory agency.

Government purchasing personnel are provided on-line access to the HCE, allowing them to check compliance status of registered vendors, view, and print the compliance certificate prior to an award.

As of January 2007, there are approximately 2,230 vendors enrolled on this electronic system. DAGS, Accounting Division estimates that approximately 70% of invoices processed for payment through their office utilize the HCE certificate, versus the 3 paper certificates. The minimal cost to vendor to utilize the HCE is \$12.00 per year, a decrease from \$15.00 when the system was initially launched over two years ago.

Travel Related Services program is responsible for managing and maintaining administrative rules and travel policies, including procedures and forms for travel by all state employees. This includes training classes on an as need basis, responding to inquires by phone or e-mail. SPO also administers a contract for an all inclusive intra-state car rental services. SPO regularly monitors the inter-island airline industry to determine the feasibility of a price/vendor list contract.

Surplus Property Management Section includes **five** staff members that administers the transfers of state and federal surplus property and vehicles to state and county agencies, and eligible participants.

Surplus Property Program obtains various surplus items mainly from Federal sources such as the various military bases, Federal facilities, and the General Services Administration (GSA), for reutilization by state and county agencies, and available to eligible participants such as licensed or approved educational, health and human services organizations, and 8(a) minority owned small businesses. A service and handling fee is assessed to a recipient for any item acquired from the program.

The Surplus Property program is the only state program authorized by the federal government to obtain surplus federal property for reutilization by governmental agencies and qualified organizations.

Inventory Management Section includes **two** staff members that administers the State's inventory management program; manages the statewide inventory system; redistribution of excess state equipment; and inventory data for financial statements; and the centralized statewide Fixed Asset and Inventory System (FAIS), a computerized property inventory records system.

The program conducts field audits of State agencies to test the accuracy of their inventory and ensure compliance to policies and procedures pertaining to the inventory management of State property.

Conducts training of inventory personnel in State departments and agencies on applicable laws, rules, policies, procedures and accounting requirements.

Audits property disposal applications submitted by the executive departments, except the Department of Education, Office of Hawaiian Affairs, University of Hawaii, and Hawaii Health System Corporation, to ensure conformance to the requirements of the rules, policies and procedures pertaining to disposal of State property.

Maintains the transfer of property document file to confirm and verify the transferring of property between State agencies.

Excess Property program manages and maintains the monthly centralized statewide on-line excess State property listing. Governmental agencies are able to access on-line, to view the monthly listing of available excess property from other state agencies, for reutilization by their programs. Thereafter, Surplus state property donation program provides a monthly listing of surplus state property to qualifying nonprofit organizations.

Annual Reporting

- Audits the Annual Inventory Report of State property submitted by all governmental bodies of the State and its counties and consolidates into one statewide Annual Inventory Report of Properties.
- Provide inventory listing and requirements to all state agencies to ensure conducting of the mandated Annual wall-to-wall Physical Inventory.

Quarterly Reporting

- Quarterly provides agencies with a listing of Financial Accounting Management and Information System state property payment transactions for reconciliation with FAIS recorded property to ensure asset accountability.
- Quarterly audits FAIS inventory update transactions to ensure conforming to proper inventory procedures and removal transactions have authorized documentation.

<p>Health and Human Services Section includes two staff members managing a variety of programs in support of direct services for the health and well-being of the public.</p>

Health and Human Services, HRS Chapter 103F, effective July 1998, was created as a separate chapter from HRS Chapter 103D. The establishment of Chapter 103F was based on the Legislature's finding that there was a need to improve the process to expend state funds for grants and subsidies and more importantly, purchases of health and human services. Separate processes were established to (1) expend state appropriations for grants and subsidies (HRS Chapter 42F); and (2) to govern the planning, procuring, and contracting of all health and human services for the state (HRS Chapter 103F).

Health and Human Services program continues to encourage provider participation to assist State agencies in their community planning activities, i.e. requests for information (RFI). RFI notices are posted on the SPO procurement notices website. Significant tools located at the SPO website for state procurement personnel, providers and interested parties are:

Request for Proposals (RFP), effective October 2004, state agencies post RFPs for health and human services to the SPO request for proposals website (RFPW). Health and human service RFPs issued by the departments of Health, Human Services, Labor and Industrial Relations, Public Safety, Education, Hawaiian Homelands, and the Office of the Attorney General as well as other departments in the Executive Branch who may from time to time, issue health and human service RFPs. RFPs issued by the Judiciary are on the Judiciary website. An archive of closed RFPs is also maintained for information and planning purposes.

Contracts Database: As of June 1, 2005, state agencies began reporting all purchases of health and human services on the online contracts database reporting system (CDRS) that is designed to:

- Provide accurate and timely information on all health and human service purchases;
- Enable state agencies and community members to effectively plan and coordinate services; and
- Streamline the reporting process by replacing the annual reports required pursuant the administrative rules for HRS Chapter 103F.

How often is Data Posted and Updated?

- New contracts and amendments to contracts - 5 working days of contract or supplemental agreement execution (signing by all parties).
- Funds actually expended - within 60 days of the end of a fiscal year or 90 days if the contract is expiring.
- Major accomplishments - within 60 days of the expiration of the contract.

For fiscal year 2007, the CDRS listed over 1000 contracts totaling \$500 million. Contract information identifies:

- Purchasing agency
- Provider
- Geographic area served
- Population served
- Funding (source, fiscal year, method of compensation, actual expenditures)
- State agency contact information
- Major accomplishments of the contract.

Interested parties may search the database by department, division, fiscal year, geographic area, target population, service and provider.

Requests for CPO Approvals are on a searchable website, listing all executive branch requests subject to approval by the chief procurement officer (CPO). The state purchasing agency, provider, brief service description, contract term, contract funding, status (approved/denied, etc.) and status date are shown. The documents available for viewing:

- Restrictive Purchase of Service (Sole Source)
- Exemptions from HRS Chapter 103F
- After-the-Fact Secondary Purchases of Health and Human Services
- Crisis Purchase of Service (Emergency)

Report of Planned Purchases provides potential applicants and interested parties with advance notice of opportunities to: 1) submit proposals; and 2) participate in State agency community planning activities. The report is also a planning tool for State agencies to plan and coordinate their procurement and contracting efforts.

The current report of planned purchases contains hundreds of potential procurements for future contracts through June 2008. Each procurement entry includes service title, geographic location, target population, public notice date, contract term, funding amount and contact information. Listings are by department and division or administratively attached office. Information including estimated timelines for community planning activities is available through the contact person listed in the report.

Provider e-Mail List for health and human services provider e-mail list. Subscribers to this list receive information about how the state buys health and human services from private providers, i.e., procurement procedure changes, workshops, informational meetings and conferences, and notices of new reports and information. Currently, over 600 people involved with health and human service are subscribed. This method of networking providers/vendors to update interested parties has been successful.

1) *The current status of amendments to its administrative rules in lieu of amendments to the Hawaii Revised Statutes:*

The State Procurement Office (SPO) coordinates the development of rules, regulations, policies and procedures to implement the laws for all governmental bodies, including the several counties, for both Chapter 103D and Chapter 103F of the Hawaii Revised Statutes.

Hawaii Public Procurement Code, Chapter 103D, HRS, applies to all procurements for the buying, purchasing, renting, leasing, or otherwise acquiring any good, service, or construction. Includes inventory management and surplus property management programs.

There are thirteen Hawaii Administrative Rules (HAR) chapters that have been adopted to implement the requirements of Chapter 103D since its 1994 inception. Currently, four chapters were amended, and have been adopted as Interim HAR, with an effective period of 18 months until taken to the public hearing process pursuant to Chapter 91, HRS. These rules are:

Chapter 3-121 Procurement Organization has 33 sections, and was amended to add three new sections and revised four other sections to include provisions for meetings, rulemaking proceedings and declaratory rulings.

Chapter 3-122 Source Selection and Contract Formation is currently in the Chapter 91, HRS, rule process for public hearing. Chapter 3-122 contains §§3-122-1 to 3-122-242, that required amendments for clarity, address statutory amendments, and required significant changes to streamline the processes, such as requiring internet posting of procurement notices, include provisions for pre-bid conferences, prohibiting appointed positions from serving on committees for procurement of professional services.

Chapter 3-124 Preferences contains 74 sections, including a new Subchapter 9 to implement the requirement of Act 50/2005 on assistance to small businesses to develop a set-aside program. This chapter provides preference programs to encourage businesses in areas such as Hawaii products, printing preferences, software development, recycled products.

Chapter 3-128 Governmental Relations and Cooperative Purchasing amended two of the nine sections to provide clarity to the provisions on cooperative purchasing between governmental agencies from other states.

The following three chapters are currently in draft rules process to amend or add various sections, for discussion and approval by the Procurement Policy Board:

Chapter 3-125 Modifications and Terminations of Contracts
Chapter 3-127 Assistance to Small Business
Chapter 3-131 Procurement Violations

Purchases of Health and Human Services, Chapter 103F, HRS, applies to contracts for direct services to communities, families, or individuals that are intended to maintain or improve health or social well-being.

The HAR were adopted in June 1999, and have since been amended. The rules have been revised to include consolidating of sections, clarifications and technical changes. Significant amendments were the (1) addition of a subchapter to establish procurement violation procedures; (2) making requests for information a requirement rather than an option when developing a request for proposals; and (3) adding a section to allow purchasing agencies to issue joint request for proposals. The public hearing process to amend rules was conducted, and the amendments were effective January 2006.

There are 10 HAR chapters as follows:

3-140 Definitions
3-141 General Provisions
3-142 Planning
3-143 Competitive Purchase of Service
3-144 Restrictive Purchase of Service
3-145 Treatment Purchase of Service
3-146 Small Purchase of Service
3-147 Crisis Purchase of Service
3-148 Protest and Request for Reconsideration
3-149 Contracting

2) *The complaints (categorized by type) it has received and investigated and the corrective measures, if any, it has ordered;*

The State Procurement Office (SPO) maintains the proactive approach to provide written guidance and support. The Policy and Rules Compliance section (resources of two Purchasing Specialists IV) fields questions, including e-mail and telephone calls, from all 20 procurement jurisdictions (State, counties, Judiciary, Legislature) within the State, with the goal to educate to prevent inappropriate procurement practices.

The following listing reflects complaints received by the State Procurement Office for FY 05 to date:

Date	Jurisdiction	Description
2/22/05 via email	Office of the Ombudsman, Gansin Li	<p>Review of DHS's small purchase procurements with regards to 3 small purchase procurements for Dr. Pablo Stewart, Mr. Joseph B. Borgo, and Ms. Emu Uyehara. These contractors were required to provide training services on certain topics.</p> <p>Findings: Total amount of purchase orders for each individual for separate services did not exceed \$25,000 (threshold of HRS Section 103D-305 at the time of the review). The procurement files contained the appropriate documentation (i.e., purchase orders, letters of acknowledgement, scope of services, training agendas, training materials, etc.) to substantiate the procurement process for the 3 small purchases.</p>
1/31/07	Office of Information Practices (OIP)	<p>Complaint was filed through the OIP on behalf of Mr. Larry Geller who requested a copy of the executive session minutes of a 10/05/06 Procurement Policy Board (PPB) meeting.</p> <p>Findings: the PPB responded to the OIP that the minutes are being withheld under HRS sections 92F-13(2), 92F-13(3), and 92F-13(4).</p>
5/15/07	OHA	<p>OHA Trustee Rowena Akana complaint regarding an inappropriate contract extension with Patton Boggs LLP.</p> <p>Findings: The OHA contract was compliant pursuant to HRS 103D-102(b)(4)(J) for services of attorneys expected to be performed outside the State.</p>
6/1/07 via email	Office of the Ombudsman, Gansin Li	<p>Complaint letter from Palekaiko Beachboys regarding a decision by the City and County of Honolulu's Department of Enterprise Services regarding operating a beach service concession on lands set aside by Executive Order without first seeking the prior approval of the Board of Land and Natural Resources.</p> <p>Findings: Recommended that Palekaiko Beachboys first pursue the complaint with the Chief Procurement Officer for the City and County of Honolulu.</p>
8/03/07	Akaku: Maui Community Television	<p>Complaint was filed through circuit court on the Public, Educational, and Governmental (PEG) services Request for Proposal (RFP).</p> <p>Findings: The Attorney General responded to all items of the complaint and for the complaint to be dismissed.</p>

Date	Jurisdiction	Description
8/24/07	Office of Information Practices (OIP)	<p>Complaint was filed through the OIP on behalf of Mr. Lance Collins and Akaku: Maui Community Television who requested copies of all procurement protests filed with the State Procurement Office in conjunction with the Public, Educational, and Governmental (PEG) Request for Proposal (RFP).</p> <p>Findings: The SPO responded to Mr. Lance Collins, Akaku, and the OIP that because the request was for an active RFP, the procurement process limits releasing any documents pertaining to the RFP until after award of the contract.</p>
12/18/07 email	Jack Hufstetler	<p>Contracts for event coordinators with the City & County of Honolulu</p> <p>Findings: Recommended that he first contact the City & County of Honolulu's, Chief Procurement Officer, Mary Pat Waterhouse, Director of Finance.</p>
1/14/08	Michael Pfeffer, Kolohala Holdings LLP	Review and response pending.

3) Its efforts to monitor and police the actions of the various agencies' procurement personnel;

Procurement assistance and information are provided statewide to State and county agencies, suppliers, vendors, contractors and service providers. Initiatives to improve procurement services and growing expectations of effective procurement systems require additional resources. The State Procurement Office (SPO) has continued to submit budget request for positions to meet the need for training requirements. Positions will be used to implement, coordinate and conduct, and maintain a statewide training, compliance and ethics program for all purchasing personnel, including the counties, affecting all purchasing jurisdictions.

Technological advances continue to provide our operations with numerous opportunities to enhance our current processes and to introduce new ones. Use of purchasing cards and the Hawaii Electronic Procurement System (HePS) has been implemented, and are being institutionalized. The passage of Act 283/2006 requires purchasing agencies to utilize an electronic procurement system supporting SPO initiatives to advance procurement practices with technological advancement while infusing more opportunities for competition and efficiencies.

As we progress with statewide improvements of the procurement system, the need for additional resources is becoming visibly apparent. While we realize that constraints exist for operating budgets, we also realize we cannot continue to adequately perform our mission without additional resources. It is crucial to note that the changes we are seeking benefit primarily our customers and suppliers, and not the SPO. Furthermore, more demand and stress are placed upon SPO personnel as we institute more initiatives. We have learned that assigning training tasks to SPO personnel already tasked by their normal procurement duties exacerbates the situation. The groundwork for training activities was implemented by SPO personnel who already have numerous other assigned duties and responsibilities, and are falling behind their current duties.

Personnel in the agencies across the state are using small purchase procedures and issuing invitation for bids and request for proposals. To properly execute their duties, training needs to be afforded to them upon assignment of their procurement duties and periodically thereafter. Along the same lines of thought, onsite assessments and reviews of procurement practices by agency personnel will help the SPO to better focus on areas of training needing attention. We believe periodic reviews of procurement practices would be very beneficial but resources are not available to adequately perform these reviews on a consistent basis and reviews occur based largely on request.

The following systems managed by the SPO have the capacity to capture procurement, award, and spend data to assist in monitoring and analysis of the commodities and services being purchased every day by government agencies.

Hawaii electronic Procurement System (HePS). The State Procurement takes a proactive approach by focusing on training and technical assistance. HePS has been useful in performing spot checks of solicitations and providing technical assistance to buyers in correcting problems. Unfortunately, there are not enough resources to review every solicitation. With sufficient resources HePS can be invaluable in assisting department procurement personnel by reviewing more solicitations and providing more technical assistance. HePS is also extremely useful in indicating areas to target training.

Procurement Reporting System (PRS) posting of contract award data on-line to the Internet began March 31, 2006 to increase transparency in government. Award information is available at <http://www.hawaii.gov/spo2/>, and includes information on contract/PO no., procurement type, vendor, department, and brief description.

Contracts Database In 2000, SPO began compiling annual reports of state health and human services contracts. As of June 2005, state agencies report all purchases of health and human services as the contracts are executed, on the on-line contracts database reporting system (CDRS) that is designed to: 1) Provide accurate and timely information on all health and human service purchases; and 2) Enable state agencies and community members to effectively plan and coordinate services. Over 1,000 health and human service contracts totaling over \$500 million are reported yearly on the CDRS.

The CDRS makes information available to all interested parties. SPO performs spot checks for entry errors and informs state agencies of the need to correct and update contract information. The database is a useful tool in identifying areas for future training topics and program needs.

Purchasing Card (pCard) Program continues to provide improved processes and monitoring to enable the expeditious utilization of the purchasing card as an alternative to purchase orders to facilitate the purchase of goods and services. Encouraging departments to increase use of the pCard rather than a purchase order, and promoting the benefits of the pCard program to agencies and vendors has increased use of the program. The expenditure data is available to track each pCard holder to monitor spending.

Purchase of Service Team (POST) is comprised of various state departmental staff involved in the planning, purchasing and contracting of health and human services. SPO maintains an e-mail list and conducts meetings to inform and obtain feedback on various aspects of health and human service procurement. 284 state personnel are subscribed to the POST email list. Utilizing POST, SPO has collectively addressed issues to improve the State's ability to purchase quality services from the private sector. This networking provides a means of review and comments on the various issues to monitor procurements.

4) Its plans to improve the training and supervision of the various agencies' procurement personnel;

Procurement training is an important and vital tool in ensuring proper procurement practices, are achieved. Purchasing agencies are responsible for maintaining the procurement files and records. It is important for agencies to understand the process and to ensure procurement files are thoroughly completed and contains all the necessary documentation.

The following is a summary of procurement training conducted in:

2006 Training for State and County Procurement Personnel:

September to December 2006

Islands of Oahu, Hawaii (Hilo and Kona), Maui, and Kauai

Total of 2,822 attendees

Total of 98 workshops (17 different workshops)

- Competitive Sealed Bids (IFB)
- Competitive Sealed Proposals (RFP)
- Emergency Procurement
- Professional Services
- Small Purchases - Hawaii Electronic Procurement System (HePS)
- Sole Source Procurement
- Exemption from HRS Chapter 103D
- Evaluating Proposals
- Methods of Source Selection
- Developing an RFP
- Request for Information (RFI)
- Basics of Procuring Health and Human Services
- Administrative Rule Changes for 103F

- Request for Information for Health and Human Services
- Developing a Request for Proposal
- Evaluating Proposals for Health and Human Services
- Methods of Source Selection – Treatment, Restrictive, Crisis and Small Purchase

2007 Training for State and County Procurement Personnel:

September to December 2007

Island of Oahu

Total of 663 attendees

Total of 30 workshops (18 different workshops)

- Overview on Procurement (for Administrators, managers)
- Competitive Sealed Bids (IFB)
- Preparing a Request for Proposal (RFP)
- RFP – Evaluation and Award
- Other Methods: Emergency, Sole Source, Professional Services
- Exemption from 103D / Federal Grants and Request for Information (RFI)
- Small Purchase / HePS
- Procurement Web Systems (HePS, Procurement Notice System, Procurement Reporting System, Hawaii Compliance Express)
- Travel Services
- Inventory Management / Surplus Property
- Chapter 104, HRS – Wages & Hours of Employees on Public Works (Conducted by DLIR)
- Construction (Conducted by DAGS, Public Works Division)
- Understanding Insurance Requirements for Contracts (Conducted by Risk Management Office)
- Ethics for State Procurement Personnel (conducted by State Ethics Commission)
- Introduction to Green Purchasing (Environmentally Preferred Purchasing, Recycled products)
- Contract Administration
- Basics of Procuring Health & Human Services
- Procuring Health & Human Services in the Electronics Age (Contracts Database Reporting System, Request for Proposals Website, HePS)

SPO is also utilizing webinars and other electronic means to expand training to reach more employees, to lower costs, and to make better use of resources.

Prior to the 2006 formal procurement training workshops, the SPO provided training to agencies by request and on an as needed basis. In order to balance the limited resources of the SPO, our efforts to provide procurement guidance and information was on the SPO webpages, and consultation by telephone, e-mails or meetings to the agencies and vendors. If we were not able to provide written responses to address the situation, we would provide on-site training subject to availability of staff resources.

The SPO has, and continues to accommodate all requests from purchasing agencies to the interested public for information, assistance, and training. The SPO participates as guest speaker or participant in organizations sponsored workshops, conferences and seminars such as the Small Business Administration, American Council of Engineering Companies of Hawaii, Association of Government Accountants, Hawaii Chamber of Commerce, and National Association of Purchasing Managers.

Since 1998, SPO held four procurement of health and human services conferences (8/98, 5/00, 1/03, 8/05) to (1) discuss new ideas and ways to partner effectively to address the challenges facing health and human services delivery; (2) share best business practices to enhance the efficiency, effectiveness and stability of the health and human services delivery system in Hawaii; and (3) network with potential partners from the public and private sector. Over 400 individuals from both the private and public sectors participated in each conference.

Hawaii Electronic Procurement System (HePS)

The SPO launched the HePS program in 2005 as a pilot and began full implementation in late 2006 by conducting planning meetings with departments. The program provides savings of government taxpayer dollars by adding efficiency to the procurement process, and is designed to notify vendors when a commodity, service or construction they provide is solicited, ensuring registered vendors are notified and afforded an opportunity to submit an offer. Additionally, HePS promotes more competition due to the simplified process of submitting offers electronically.

To meet Act 283/2006 requirements for small purchases between \$25,000 to \$50,000, the SPO continues to implement electronic purchasing. Over 1,200 personnel have been trained since the HePS pilot program began. HePS has been expanded to include the Judiciary and Hawaii Health System Corporation and will expand other jurisdictions. The Department of Education is scheduled for training beginning in late January.

HePS is providing a good indicator for targeting training needs. The SPO provides all training, technical assistance and training materials necessary. HePS can be utilized in reviewing procurements conducted by various agencies.

In 2006 - 2007, 68 training sessions were conducted for 764 purchasing personnel for 1) *HePS Basic User Training (Buyers and Approvers)*; and 2) *HePS Refresher Training*

For 2008, training for *HePS Beyond the Basics*, along with additional *HePS Basic User Training* and *Refresher* classes for new personnel are scheduled. Training on issuing Invitations for Bids on HePS will begin in late spring. Additional training on generating system reports is planned for department system administrators so they may improve their oversight function.

5) *Its recommendations on improving the overall procurement policy and procedure to insure objectivity, fairness and confidence in the process.*

Transparency. Keep the inertia to provide transparency to procurement processes. Already available on the SPO website for anyone to see are the Procurement Reporting System and the Procurement Notices System. These two systems provide procurement information related to awards.

HePS. Capitalize on the capabilities of the Internet and continue to improve procurement processes. The request for quotation function of HePS is already being used. Future improvements include other methods of source selection for larger dollar invitation for bid and request for proposal processes. The SPO is currently working with a core group of individuals from various departments to develop guidelines for the process of moving from paper to electronic procurement, which requires careful planning. Each department and its various divisions have different paper processes and procurement is not centralized even within departments, making oversight and provision of assistance far more difficult with limited resources. SPO is also working to make HePS more user-friendly and develop components that will better accommodate the procurement process for the various methods of source selection.

Compliance. Provide resources to conduct assessments and reviews to determine if procurement policies and procedures are effective and efficient and to further help direct changes in training provided and processes used.

Training. Continue the initiative to provide procurement training. Document the training to determine its effectiveness against results when assessments and reviews are conducted and problems are surfaced during normal operations.

Procurement is not an easy or automated task. It requires skill, not only in knowing the statutes and rules, but being able to apply them with their intent of openness, fair play and thorough documentation and balancing that with best value and an expedient process.

SPO is also exploring electronic options for providing assistance by utilizing its website and creating online FAQs and "How To's" that can be added to as additional needs are determined. With sufficient resources, SPO will also be able to develop short videos on performing various functions in HePS." While certain kinds of training can only be completed in a face-to-face environment, SPO is also exploring the possibility of utilizing webinars for other training to make training more accessible while minimizing the need for additional resources.

Resources. State Procurement Office procurement personnel working on using technological advancements to improve our procurement system while holding them accountable for their current duties can work in the short run but would be difficult to sustain in the long run. The groundwork for the HePS is currently performed by procurement personnel assigned to other duties. Staff cannot be expected to continue to devote a large percentage of their time to new initiatives while falling behind their current duties.

Procurement needs to be viewed by our leaders as being a *value and revenue center*, for the benefit of the state. It is a foundation for effective programs and policies, to be able to integrate with all major state initiatives. Procurement should leverage information technology to increase efficiency, reduce response time and increase ease of communication in the procurement cycle.