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TESTIMONY  
OF  
SARAH ALLEN, ADMINISTRATOR  
STATE PROCUREMENT OFFICE

TO THE SENATE COMMITTEE  
ON  
WAYS AND MEANS  
February 26, 2016 9:45 A.M.

SB 2493 SD 1  
RELATING TO PROCUREMENT

Chair Takuda, Vice-Chair Dela Cruz, and members of the committee, thank you for the opportunity to submit testimony on SB 2493 SD 1. The State procurement Office (SPO) does not view this amendment to HRS §103D-202 to be necessary.

The Hawaii Public Procurement Code, memorialized in Hawaii Revised Statutes §103D is an exceptional example of the concept of "Separation of Powers." HRS §103D-107, establishes a compliance audit unit within the Office of the Auditor for the purpose of periodically reviewing and auditing procurement practices within government to ensure compliance with 103D. Statutorily placing the compliance audit unit within the Legislative Branch is prudent since the Office of the Auditor can easily maintain impartiality, objectivity and detachment from any executive branch agency.

The main mission of the Procurement Policy Board (PPB), pursuant to HRS § 103D-202 and § 103D-211, is to adopt rules and consider and decide matters of policy within this chapter. The PPB consists of a seven member board, five of which are volunteer members of the public who are appointed to sit on the board. While members of the PPB are required to meet certain qualifications under HRS § 103D-202 expertise in the field of procurement reviews is not one of them. Reviewing procurement contracts to ensure compliance with the procurement code is a specific skill set and requires training and expertise to carry out that function.

According to the Acting Director of the Legislative Audit Department, at least 90% of current audits already include procurement reviews, and procurement is part of every audit risk assessment. In addition, SPO and the Office of the Auditor have been partnering to develop additional procurement training for their audit personnel to expand their procurement expertise for future procurement audits.

If the Legislature mandates the PPB engage in annual review and examination of procurement contracts over \$50,000 of a minimum of two executive departments, then significant funding and resources will be needed, since this function has not been funded by the legislature in the past. The PPB does not have the resources to conduct procurement reviews. HRS section 103D-201 states; "... The policy board shall be assisted by employees of the department of accounting and general services, which shall provide at least one full-time support staff and funding necessary to support the policy board..." This staff position has never come to pass and therefore it would fall to SPO to conduct any reviews.

While SPO is granted authority to review the procurement practices of agencies and jurisdictions this is beyond our current capability. The SPO does not have the resources, to meet this requirement since SPO staff already engages in procurement reviews.

FY 2015: SPO conducted:

- 2 Procurement Investigations
- 6 Procurement Reviews
- 32 Protest Reports reviewed (SPO-043)
- 63 Procurement Violations

In order to meet this requirement SPO would require either: (1) the setup of an Audit Division within SPO (with associated funding and resources); or (2) Outsourcing this audit/review function to a third party.

The cost associated with each option:

(1) SPO Audit Division – requires additional staff: Two (2) full-time equivalents at the SR 24 level at mid-level, \$64,608 ; one (1) EM 05 Supervisor average salary at \$111,168 plus 41.54% fringe on these positions; equipment \$4,000 (PC's, printer, etc.); plus overhead support staff (clerical); and office space- estimated at \$3 per sq ft x 1200 sq.ft.

Estimated startup cost: \$437,137; Annual Costs thereafter: \$434,137

OR

(2) To procure auditors, need in house contact administrator SR 24 mid-level plus fringe \$91,446 as well as \$150K on average for procurement audits.

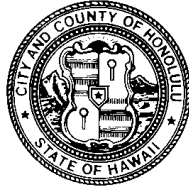
Estimated cost per year \$241,446

The SPO recommends instead of tasking the PPB with conducting procurement reviews of contracts over \$50,000 the State would be best served if funds be allocated to the State of Hawaii's Office of the Auditor to create a viable procurement audit division within its already established office.

Thank you.

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KIRK CALDWELL  
MAYOR



NELSON H. KOYANAGI, JR.  
DIRECTOR

GARY T. KUROKAWA  
DEPUTY DIRECTOR

TESTIMONY OF NELSON H. KOYANAGI, JR.  
DIRECTOR OF BUDGET AND FISCAL SERVICES  
CITY AND COUNTY OF HONOLULU  
BEFORE THE SENATE COMMITTEE ON WAYS AND MEANS  
9:45 a.m., February 26, 2016, Conference Room 211

Senate Bill No. 2493 SD1, "Relating to Procurement"

Position: IN OPPOSITION

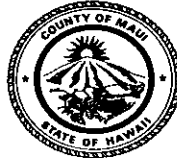
TO: The Honorable Senator Jill N. Tokuda, Chair  
and Members of the Committee on Ways and Means

The Department of Budget and Fiscal Services, City and County of Honolulu, **opposes** Senate Bill No. 2493 SD1, Relating to Procurement.

The bill is unnecessary since the State's procurement code already allows the policy board to audit executive departments, divisions and agencies to ensure compliance with the State's procurement code.

Mahalo for the opportunity to testify on this bill. Should you have any questions or concerns, please feel free to contact the Department of Budget & Fiscal Services' Division of Purchasing at 808-768-5535 or [bfspurchasing@honolulu.gov](mailto:bfspurchasing@honolulu.gov).

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TESTIMONY  
OF  
GREG KING, CHAIRMAN  
STATE PROCUREMENT POLICY BOARD

TO THE SENATE WAYS AND MEANS COMMITTEE  
February 26, 2016 9:45 a.m..

SB2493 SD1  
RELATING TO PROCUREMENT

Chair Tokuda, Vice-Chair Dela-Cruz, and members of the committee, thank you for the opportunity to submit testimony on SB2493 SD1

As the current Chairman of the Procurement Policy Board, I am speaking for myself only, in opposition to this proposed legislation. The procurement policy board does not have the resources and may not have the expertise to conduct any type of valid audit or review of the procurement operations of a state or county agency. The State Procurement Policy Board has no budget of its own, and it is my understanding that the SPO does not have a budget available for the Procurement Policy Board to conduct audits or reviews.

The State Procurement Policy Board, under HRS 103D-201(b), consists of the State Comptroller, a county procurement professional, a federal procurement professional, 2 health and human services professionals, and two other persons with significant procurement experience. The composition of the board is best suited to provide input and decision making on proposed rules, and not to conduct audits. Even if sufficient financial resources were provided to the board to hire an auditor, it is unknown whether the board has the capability to properly direct or oversee an audit.

With the exception of the State Comptroller position on the board, the Procurement Policy Board consists of volunteers. My experience, from being on the board off and on during 4 administrations, is that the board members that have served are qualified individuals who are thoughtful and capable decision makers with substantial leadership and management experience. These individuals have the time to attend a few meetings a year, but they would not all be able to take enough time out of their busy full time schedules to conduct or oversee a properly conducted audit or review. In my time on the board, I have found that it has been difficult for

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*Senate Ways and Means Committee  
SB2493 SD1 Testimony – Greg King  
Page 2 of 2*

each of the 4 administrations that I have served under to fill board vacancies due to the experience requirements. Currently, we do not have enough members for quorum to hold a meeting. Imposing new time consuming tasks on the board would likely make it even more difficult to find qualified board members willing to serve.

HRS 103D-107 provides for a compliance audit unit within the Office of the Auditor. Due to the principle of the separation of duties, and the existing expertise to direct and oversee an audit that exists within the office of the auditor, it is my opinion that the goal of increasing procurement audits would be done most efficiently and effectively by the Office of the Auditor, and not the procurement policy board or the State Procurement Office.

Thank you for your consideration.