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IN REPLY REFER TO:

AIR-A
16.0069

September 26, 2016

DEPT. COMM. NO. 10

The Honorable Ronald D. Kouchi
President, Hawaii State Senate
Hawaii State Capitol
415 South Beretania Street, Room 409
Honolulu, Hawaii 96813

Dear Chairperson Kouchi:

Reference is made to Report No. 16-07, issued August 2016 entitled: Airports Division Need Clearer Guidance: Follow-up on Recommendations Made in Report No. 13-04, Procurement Examination of the Department of Transportation.

We appreciate the opportunity to provide you with the enclosed update on the one (1) open item and the five (5) open but in progress items, in accordance with Report No. 16-07, as we will continue to strive to improve on procurement management and oversight.

Should you have any questions, please contact Mr. Sidney Hayakawa, Administrative Services Officer, at 587-2153.

Sincerely,

A handwritten signature in black ink, appearing to read "Ford N. Fuchigami", written over a horizontal line.

FORD N. FUCHIGAMI
Director of Transportation

Enclosure

DEPT. COMM. NO. 10

Report Title:	Airports Division Needs Clearer Guidance: Follow Up on Recommendations made in Report No. 13-04, Procurement Examination of the Department of Transportation
Report No.	16-07

RECOMMENDATION:

Recommendation No. 1a: Review the department's and Airports' construction management policies and procedures to ensure there is sufficient oversight of contractors performing management services.

The audit recommended that DOT review Airports' construction management policies and procedures to ensure there is sufficient oversight of contractors performing management services. Our review found that in 2013, Airports established a policy that requires state personnel to approve any decision involving the obligation, negotiation or approval of funds, or changes in contract scope of work. In addition to the policy, Airports acknowledged that sections of other documents, including the construction management manual and the department staff manual, may also provide guidance. Airports plans to use a computerized system called UNIFIER, which is currently being developed for contract administration. Based on our review, we deem Recommendation No. 1a as **open but in progress**.

SEPTEMBER 2016 UPDATE: as of September 20, 2016

Update of 1a: The Project Management manual on how to provide proper and continuous oversight of Project Management consultants performing management services is being written to update the previous Project Management manual published in 2000. The new manual will be based on the current Construction Management manual consisting of 115 pages to ensure sufficient oversight of contractors by authorized Airport Division personnel and these procedures and forms will be incorporated into UNIFIER, our computerized system for accountability. We are estimating that the Project Management manual will be drafted, reviewed, and approved by end of this calendar year (2016). The Airports Division does not anticipate on having another Project Manager for large construction projects in the near future and we will continue to provide oversight to the current consultants on performing management services that have been previously acquired.

RECOMMENDATION:

Recommendation No. 1b: Provide training to all divisions regarding the use of contractors for program, project, and construction management services.

The audit reported that a lack of training and monitoring of training compliance were the primary cause of the procurement deficiencies and violations found within DOT divisions. In our follow-up, the Contracts Office supervisor clarified that her office provided training to Airports project managers in 2014, but the training did not specifically address procuring program management services or any aspect of contract administration. Further, while we found that some Airports' training courses may apply to program management consultants, those courses are inconsistently offered. Based on our review, we deem Recommendation 1b as **open but in progress**.

SEPTEMBER 2016 UPDATE: as of September 20, 2016

Update of 1b: The Airports Division has initiated and will continue to administer weekly Project and Construction Management training every Thursday to all appropriate personnel. An attendance sheet is maintained for each session and the curriculum and attendance sheets are available for inspection.

RECOMMENDATION:

Recommendation No. 2a: Ensure Airports implements formal procedures to regularly (i.e., monthly) and actively monitor the costs of security services incurred in all districts to ensure costs are reasonable and in line with management's expectations, rather than merely relying on the practices of individual airport district managers.

The audit reported that Airports had no formal or centralized procedures for estimating security needs or costs. It also noted that Airports' monitoring of actual security costs was too informal, raising concerns about whether the State was overpaying for services. Our review found that there are still no centralized procedures for estimating security needs, costs, or monitoring expenditures. However, we found Airports initiated a collective effort in July 2016 to ensure monitoring and oversight procedures and forms are uniform and memorialized to ensure consistency. A proposed draft of these procedures and policies will be discussed with Transportation Security Administration representatives and the security services vendor in August 2016. Based on our review, we deem Recommendation No. 2a as **open but in progress**

SEPTEMBER 2016 UPDATE: as of September 20, 2016

Update of 2a: In coordination with the District Security Managers from each District (Oahu, Maui, Kauai and Hawaii) draft procedures were completed and is being reviewed by appropriate Airports Division Program Managers. Once approved these procedures will be formalized as policy as Airport Division Procedures. These procedures identify each Airport District Manager and the District Security Managers as the designated responsible party to determine the security requirements and costs for their respective airports. In addition, the policy will require that only the District Security Manager or his/her designee will review and certify that the monthly invoice delineating the security services performed with line item costs is supported by documentation; to include, but not limited to time sheets, service orders, and approved overtime sheets, to ensure accountability that the security services was necessary and performed in a satisfactory manner by the security contractor, in accordance with the contract and post orders and within authorized hours. The Airports Division's Certification, Security and Safety Specialist will be responsible for periodically monitoring the costs of the security services incurred at each districts to ensure that costs are reasonable, in line with management's objectives and Federal security requirements within the expenditure plan. The Airport Certification, Security and Safety Specialist will also monitor the invoice amounts and hours to ensure that no large variables (increases or decreases) in the security services or costs are performed without a valid reason or explanation. This policy will ensure that the procedures are uniformed and applied in a consistent manner by each District. When these procedures are formalized as Airports Divisions Procedures a copy will be provided to the State Auditor.

RECOMMENDATION:

Recommendation No. 2c: Seek guidance from the State Procurement Office in determining what actions can and should be taken against Ted's Wiring Service to recover any damages for the extensive delays in completing the AVI project and to prevent such situations from recurring.

The audit raised concerns regarding a nearly \$1.5 million contract with Ted's Wiring Service to install and maintain an AVI system to monitor taxi activity and fees at the Honolulu International Airport. Our review found that Ted's Wiring Service sued DOT for breach of contract in July 2013. In November 2015, a circuit court judge ruled in favor of Ted's Wiring Service and awarded more than \$112,000 in damages. The judge also denied the State's counterclaim for damages. The Department of the Attorney General intends to appeal the court's order. Since litigation is ongoing, we deem Recommendation No. 2c as **open but in progress**.

SEPTEMBER 2016 UPDATE: as of September 20, 2016

Update of 2c: On August 31, 2016, the Department of the Attorney General, Land and Transportation Division filed a Notice of Appeal (CAAP-16-00004730) with the Intermediate Court of Appeals, State of Hawaii. Ted's Wiring Service has 40 days to respond and can request for an additional 30 days for their response.

RECOMMENDATION:

Recommendation No. 2d: Ensure Airports implements formal procedures to improve monitoring and planning for contracts and services agreements so that new agreements are procured prior to and begin upon the expiration of existing contracts.

The audit reported that the parking and taxi management concessions at the Honolulu International Airport in FY2009 and FY2010 operated under expired revocable permits in lieu of formal agreements. In our follow-up, we found that there are no formal written procedures to monitor or plan for the renewal of services agreements, which would ensure that new agreements are procured before the expiration of existing ones. Therefore, we deem Recommendation No. 2d as **open**

SEPTEMBER 2016 UPDATE: as of September 20, 2016

Update of 2d: For the interim period, the Property and Business Development Manager will issue written approval to the Deputy Director of Airports (the authorizing official) at least two (2) years prior to the scheduled ending of a current concession contract delineating the potential methods of issuance, as well as a history of recent issuances for that specific concession to be offered, and recommend the method to be used for the upcoming offering. The recommendation shall include any statutory restrictions or allowances on the method of the offering. No action will be taken to prepare the concession offering until approval is received from the Deputy Director; however, the acquisition of concession services will be completed prior to and will be effective upon the expiration of the existing concession agreement. These procedures will be formalized in a policy as Airport District Procedures and the policy will ensure that consistent and timely monitoring and planning for all concession contracts are performed. When these procedures are formalized as Airports Divisions Procedures a copy will be provided to the State Auditor.

RECOMMENDATION:

Recommendation No. 3b: Develop a process to ensure contract awards are posted in a timely fashion, which may involve having the individuals responsible for issuing award letters also be responsible for posting awards. This would require having access and authority to post to SPO's website.

The report cited multiple instances in which professional services contract awards were not posted on the State Procurement Office website within the required seven-day time frame. Our review found that the responsibility to post professional services contract awards were reassigned in 2013 from the divisions to the Contracts Office; however, we understand that the responsibility to post contract awards may again be returned to the divisions. Based on our review, we deem Recommendation No. 3b as **open but in progress**.

SEPTEMBER 2016 UPDATE: as of September 20, 2016

Update of 3b: Formal authorization will be issued to all Divisions to allow designated personnel to post all professional service contract awarded on the State Procurement Office's Posting and Procurement Notice System within seven (7) days after the award. A copy of this formal written authorization will be provided to the Office of the Auditor.