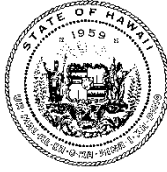


DAVID Y. IGE  
GOVERNOR



SARAH ALLEN  
ADMINISTRATOR  
MARA SMITH  
ASSISTANT ADMINISTRATOR

**STATE OF HAWAII  
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TESTIMONY  
OF  
SARAH ALLEN, ADMINISTRATOR  
STATE PROCUREMENT OFFICE  
  
TO THE HOUSE COMMITTEE  
ON  
FINANCE

Wednesday, March 28, 2018, 4:00 p.m.

SENATE BILL 2914, SD1, HD1  
RELATING TO PROCUREMENT

Chair Luke, Vice-Chair Cullen, and members of the committee, thank you for the opportunity to submit testimony on Senate Bill 2914, SD1, HD1. The State Procurement Office (SPO) **supports** the intent of this bill which requires any government body that enters into a contract that is exempt from the state procurement code pursuant to HRS § 103D-102(b) to report that contract to the SPO and legislature.

HAR § 3-120-5, Procedures for requesting exemption and amendment, requires the Chief Procurement Officers (CPO) to forward a copy of each exemption request and amendment to the SPO administrator. Despite this rule, response by CPO jurisdictions has been limited. In the past three years, only the Department of Education, City and County of Kauai and City and County of Maui have submitted their exemption / amendments to the SPO.

Currently there is no mechanism with which states and political subdivisions can efficiently submit this information to the SPO. Since the list of exempt items are exempt, there is likely no publication of contract awards, and there is possibly no contract. It is illogical to require administration shown within 103D for those contracts and purchases that are exempt from 103D. Thus, there are two considerations to contemplate:

1. This verbiage for administration of exempt procurements be placed in HRS103, and/or
2. The Legislature support and fund an eProcurement system which would be mandatory for all contracts (in the Executive Branch). Transparency of exempt contracts would then be accessible and efficient.

The SPO recommends that this bill take procurement transparency to a higher and more comprehensive level by requiring all the government agencies to report all contract data including exempt contracts on a single eProcurement and contract management system.

On November 20, 2017, the SPO launched the Hawaii Awards and Notices Data System (HANDS) for the posting of procurement notices for solicitation and awards as well as CPO's approvals, mandatory for the Executive Branch departments/agencies. The current version of HANDS is optional for non-executive jurisdictions for the posting of procurement notices and awards and SPO believes that this bill can create a legislative mandate to require all CPO jurisdictions to transition to HANDS or provide an API bridge. The SPO, through HANDS, will standardize the data entry for all jurisdictions and with this legislation will be able to provide more meaningful and transparent procurement data for the public and this legislative body. HANDS does not have a component for CPO jurisdictions to display their CPO approval requests and the addition of such would require additional funding and resources. It also has limited search and reporting functions.

If the legislature believes that a more robust state-wide eProcurement and contract management system is needed then the SPO would require an initial appropriation of \$4.5 M to commence such an undertaking. An eProcurement system would, in part, be a statewide database for all executive branch departments thereby providing consistency and transparency across all departments, and with adoption by all CPO jurisdictions, statewide.

The electronic procurement system would initially only be required for executive branch departments/agencies to allow the SPO time to develop policies and procedures to implement this Act. An initial investment of \$4,500,000 is required for an electronic procurement system. Attachment 1 explains what an eProcurement system is made up of and why it is important, along with our Return on Investment of 160%.

No continuing funds will be required as this system will be procured through a self-funding model that allows the state to leverage buying power to maintain the system, similar to how we already procure for certain goods and services. This creates a very positive return on investment, allows for transparency, consistency and clarity in procurement, as well as accurate spend data analysis to enhance decision-making and improve the effectiveness of the procurement process across the board, ultimately creating valuable cost-savings and successfully performed contracts.

Thank You

# Resounding Gains from eProcurement

State Procurement Office 2018

# What's wrong with what we've got?

## Disparate Front Ends

Confusion for Vendors on where to look for work & where to post for State Buyers

Reduced outreach to Market

Reduced reach to Competition

Increased Overall costs per market (oligopoly/monopoly)

## No Transparency on Spend Analysis

Duplication of effort and redundancy

Failure to leverage economies of scale

No data for decision-making

Increased costs to State Budget

## Inconsistency & Incongruent Processes

Increased procurement processing time per requirement

Increased time spent by State Buyers

Reduced efficiency of procuring personnel

Increased confusion and money spend by vendors to adjust to many inconsistent requirements

# Return on Investment

## Our Gains are 160x what our Costs are!

### DEFINITION of 'Return On Investment - ROI'

A performance measure used to **evaluate the efficiency of an investment** or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio.

The return on investment formula:

$$\text{ROI} = \frac{\text{Gain from Investment} - \text{Cost of Investment}}{\text{Cost of Investment}}$$

# Gain from the Investment

- ▶ Gains for the Taxpayers -
  - ▶ cost reductions due to leveraging economies of scale,
  - ▶ saves time taxpayers have to wait for services,
  - ▶ greater transparency into the process
- ▶ Gains for the Vendors -
  - ▶ consistency of system and one stop shop will increase competition and make it easier for vendors to bid.
  - ▶ Decrease time between notice of award and notice to proceed.
  - ▶ Business analytics to show the landscape of small business owners.
- ▶ Gains for the Departments -
  - ▶ dashboards with analytics to give Department Heads real-time information on their contracts to enhance oversight/governance and business decision-making.
- ▶ The SIX-STREAM System

# Six Work-streams of eProcurement

Procure- to Pay  
Automation

Catalog  
Establishment

Vendor  
Enablement/  
Management

Sourcing  
Enablement/  
Management

Contract  
Management

Spend Analysis

# Electronic Procurement Work Streams

Work Steams	Functionality
<b>Procure to Pay Automation</b>	<ul style="list-style-type: none"> <li>• Full Requisition to Order, standard &amp; adaptable to organization</li> <li>• Approvals on-line, Mobile app, Enterprise &amp; org-specific rules</li> <li>• eOrders (email, fax, EDI, cXML)</li> <li>• Receiving &amp; Asset Management data</li> <li>• Real-time integration w/Financials, Inventory, Asset, other systems</li> <li>• eInvoice, 3-way match &amp; payment authorization</li> </ul>
<b>Catalog Capability</b>	<ul style="list-style-type: none"> <li>• Hosted &amp; Punchout</li> <li>• Contract – State &amp; Agency; Non-Contract option</li> <li>• Vendor create/maintain tools</li> <li>• Buyer review, approve tools</li> </ul>
<b>Vendor/Supplier Enablement</b>	<ul style="list-style-type: none"> <li>• Self-service Registration</li> <li>• All Finance and Procurement data/information</li> <li>• Real-time integration w/Financials &amp; MBE program</li> </ul>
<b>Sourcing/Bid Management</b>	<ul style="list-style-type: none"> <li>• On-line Sourcing, all types (Formal, Informal, Reverse Auctions)</li> <li>• Automated public posting and vendor notifications (Transparency)</li> <li>• Secure on-line bidding, evaluation &amp; award</li> <li>• Integrated w/ Requisitioning, Catalogs, Ordering &amp; Contract Management</li> </ul>
<b>Contract Management</b>	<ul style="list-style-type: none"> <li>• Contract document authoring (templates, libraries, version control)</li> <li>• Contract administration (Expiration, Renewals, Licenses, Bonds)</li> <li>• Vendor performance management</li> <li>• MBE &amp; Subcontracting Plans and monitoring</li> </ul>
<b>Spend Management</b>	<ul style="list-style-type: none"> <li>• Spend Analytics, Contract use/leakage, Enterprise spend; Vendor &amp; MBE</li> <li>• Ad Hoc reporting &amp; dashboards</li> <li>• Public reports (Transparency)</li> <li>• Integrated Reporting with external systems (e.g. Finance, Inventory)</li> </ul>



# Gains from the Investment

## ▶ The Numbers

▶ A. Increase Accessibility with Cataloging, 10 new catalogs  
= \$11.6M in Gain p.a.

▶ B. Assess Tangible benefits at 2.25% p.a. supported by actual cost savings  
= \$41M in Gain p.a.

▶ C. Total Gains over a 15 year life-cycle, using Present Value of Growing Annuity  
= \$728M Gain over Life

# Cost of the Investment

## ▶ Initial Cost

- ▶ Typical Cost of full eProc system lies between \$2.5 and \$8M, with \$1M-\$1.5M operating costs per annum.
- ▶ The ASK is for **\$4.5M** for setup over 3.5 years, with no continuing maintenance cost requirements.

## ▶ Sustainability Strategy

- ▶ Vendor Fee of 1% on Catalog Awards, Starting mid-Yr 3, with full implementation of all work streams from Yr 5. Vendor fee to cover SAAS license fees, upgrades, service desk etc.
  - ▶ 15 Year Life-cycle Costs: PV of Growing Annuity
- ▶ Total Cost for Initial implementation and 15 year life-cycle

= **\$4.5M over life**

# Initial Return on Investment (ROI)

$$\text{ROI} = \frac{(\text{Gain from Investment} - \text{Cost of Investment})}{\text{Cost of Investment}}$$

► ROI =  $\frac{(\text{Gain from Cataloging: } \$11.5\text{M} + \text{Gain from System Benefits } \$41\text{M}) - \$4.5\text{M}}{\$4.5\text{M}}$

= 160%



STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
P.O. BOX 2360  
HONOLULU, HAWAII 96804

**Date:** 03/28/2018  
**Time:** 04:00 PM  
**Location:** 308  
**Committee:** House Finance

**Department:** Education

**Person Testifying:** Dr. Christina M. Kishimoto, Superintendent of Education

**Title of Bill:** SB 2914, SD1, HD1 RELATING TO PROCUREMENT.

**Purpose of Bill:** Requires any governmental body that enters into a contract that is exempt from the State Procurement Code pursuant to Section 103D-102(b), Hawaii Revised Statutes, such as a contract for procurement of services of attorneys employed or retained to provide legal services to the State or any of its agencies, to report that contract to the State Procurement Office and Legislature. (SB2914 HD1)

**Department's Position:**

The Department of Education (HIDOE) does not support SB 2914 SD1 HD1 and respectfully requests the committee to consider the implementation impact to our Department, especially on the schools. This measure will impose additional burdens on Hawaii's schools' scarce time and resources.

As proposed, SB2914 will require multiple school and office level staff to be trained to ensure compliance with the new reporting requirement.

Current and routine exempt purchases such as those for research, reference and educational materials such as textbooks, workbooks, kits, and guides are examples of goods that will fall into the proposed reporting requirement. The efficiency of the Procurement Code that allows for these types of exemptions to purchase goods such as educational materials for our students contributes to all schools' functionality throughout Hawaii.

The added requirements proposed in SB 2914 SD1 HD1 will impact student learning. Given the number of exempt purchases the HIDOE makes across all schools and offices, SB 2914 SD1 HD1 may create unintended consequences especially to Hawaii's public schools and student educational services.

Additionally, if the current Hawaii Awards & Notices Data System is used, there is a concern the system allows any agency's user, in this case any HIDOE user, the ability to affect, even if inadvertently, another HIDOE user's data entry. Thus a user could unknowingly impact a formal

procurement project with very rippling effects on either the solicitation or the award.

Please also note that in testimony submitted by the State Procurement Office, it is acknowledged that in accordance with the Hawaii Administrative Rules, the HIDOE already complies with the reporting requirement for the Chief Procurement Officers exemptions and amendments completed by the HIDOE's state level procurement section.

**The following are voices of concern from Principals across Hawaii :**

#1

As a school principal for 10 years, I have annually executed, administered, and implemented a financial as well as an academic plan to best meet the needs of my school, both operationally and academically focused on students and student achievement. At the school level, I am held accountable for all expenditures, and have taken part in the DOE's mandatory procurement training every three years. The DOE training is tailored to address procurement needs specific to HIDOE's schools and offices. - Honolulu Middle School Principal

#2

As a school principal for 16 years, in reading SB 2913 and 2914, it seems that government is overreaching into schools without an understanding of how this measure, if passed, will essentially be duplicative of what the DOE already has in place. As the required scheduling of training is unclear, this measure will complicate the abilities of a new Principal to a school or a Principal setting up a new school as the Principal may not have completed the mandated training. It is also unclear as to how a universal training will be tailored to school operations. Should trainings be conducted during school time, this will impede the Principals capacity to manage their schools. - Kauai High School Principal

#3

At a school, routine classroom purchases include research, reference, and educational materials like textbooks, workbooks, kits, and guides. As I understand SB 2913 and SB 2914, I would now have to report these purchases as goods and services that will fall into the proposed reporting requirement. The efficiency of the Procurement Code that allows for these types of exemptions to purchase goods such as educational materials for our students contributes to student learning at schools across all islands. I am unclear as to how this additional reporting requirement will contribute to improving government efficiency and accountability. - Windward Elementary School Principal

Similar concerns have been raised by additional Principals in Windward and Honolulu District.

The Hawaii State Department of Education seeks to advance the goals of the Strategic Plan which is focused on student success, staff success, and successful systems of support. This is achieved through targeted work around three impact strategies: school design, student voice, and teacher collaboration. Detailed information is available at [www.hawaiipublicschools.org](http://www.hawaiipublicschools.org).



# UNIVERSITY OF HAWAII SYSTEM

## Legislative Testimony

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Testimony Presented Before the  
House Committee on Finance  
March 28, 2018 at 4:00 p.m.

By  
Jan Gouveia  
Vice President for Administration  
University of Hawai'i

### SB 2914 SD1 HD1 – RELATING TO PROCUREMENT

Chair Luke, Vice Chair Cullen, and members of the committee:

Thank you for the opportunity to respectfully express concerns on behalf of the University of Hawai'i regarding SB 2914 SD1 HD1 – Relating to Procurement – which requires any governmental body that enters into a contract that is exempt from the State Procurement Code pursuant to Section 103D-102(b), Hawaii Revised Statutes, to report that contract to the State Procurement Office and Legislature.

Like other public agencies in the state, many purchasing transactions below a certain threshold are delegated to the field for efficiency and expediency purposes. Current and routine exempt purchases such as those for performances, including entertainment, speeches, and cultural and artistic presentations; opponents for athletic contests; research, reference and educational materials such as textbooks; goods and services for commercial resale; insurance purchases including broker services; interpreter services; court reporter services; and payment of dues or fees of organizations of which the State or its officers and employees are members, are examples of goods that will fall into the proposed reporting requirement. These transactions are statutorily identified as exempt because of the unique nature of the procurement, which brings efficiency to delivering higher education at the University of Hawai'i.

Thank you for the opportunity to provide testimony on this measure.