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STATE OF HAWAII  
**DEPARTMENT OF HUMAN SERVICES**

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April 3, 2022

TO: The Honorable Representative Sylvia Luke, Chair  
House Committee on Finance

FROM: Cathy Betts, Director

SUBJECT: **SB 3369 SD2 HD2 - RELATING TO PROCUREMENT.**

Hearing: April 5, 2022, 1:30 p.m.  
Via Videoconference, State Capitol

**DEPARTMENT'S POSITION:** The Department of Human Services (DHS) appreciates the intent of this measure, requests an amendment to exclude DHS, and provides the following comments. The Department defers to the Department of Accounting & General Services, State Procurement Office.

**PURPOSE:** The purpose of this bill is to establish a procurement services consolidation working group to develop a plan for the phased consolidation of all state executive branch procurement services and staff within five years, except those of the Department of Education, Hawaii Health Systems Corporation, University of Hawaii, and Office of Hawaiian Affairs under the State Procurement Office (SPO). Requires the working group to recommend ways to attract high quality procurement professionals to the State. Appropriates moneys. Effective 7/1/2050. (HD2).

The Department appreciates exploring to improve procurement efficiency statewide by consolidating services and staff. However, the Department respectfully requests an amendment that DHS be excluded from the consolidation plans because its procurement requires highly specialized expertise in subject matter areas that are somewhat unique to DHS.

The Department procurements result in the current management of approximately 200 contracts providing specialized program services to families and individuals DHS serves. The Director of DHS has delegated varying levels of procurement authority to DHS employees allowing each program to conduct a range of procurement transactions. These employees have completed the required SPO training to procure and manage service contracts for various specialized DHS program services, including child welfare, youth and adult protective and community services, vocational rehabilitation services, homelessness services, Medicaid, Supplemental Nutrition Assistance Program (SNAP), child care services, and Temporary Assistance for Needy Families (TANF).

DHS currently maintains a hybrid procurement structure with delegated procurement authority provided to the division and program levels supported by a procurement unit in the Department's fiscal management office. This decentralized structure with program specialists involved in all aspects of the procurement process ensures that each contract meets the needs of specific program goals and objectives, which often involve complying with various federal funding and grant requirements, including numerous reporting requirements.

Importantly, major federal programs provide reimbursement or federal matching funds for salaries and fringe benefits of administrative staff. Consequently, consolidating these positions would also require additional fiscal management to address the cost allocation of salaries and fringe benefits to maximize the State's draw of available federal funds. For this additional reason, DHS respectfully requests that it be excluded.

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

DAVID Y. IGE  
GOVERNOR



CRAIG K. HIRAI  
DIRECTOR

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EMPLOYEES' RETIREMENT SYSTEM  
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ADMINISTRATIVE AND RESEARCH OFFICE  
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FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**WRITTEN ONLY**  
TESTIMONY BY CRAIG K. HIRAI  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE HOUSE COMMITTEE ON FINANCE  
ON  
SENATE BILL NO. 3369, S.D. 2, H.D. 2

**April 5, 2022**  
**1:30 p.m.**  
**Room 308 and Videoconference**

RELATING TO PROCUREMENT

The Department of Budget and Finance (B&F) offers comments on Senate Bill (S.B.) No. 3369, S.D. 2, H.D. 2.

S.B. No. 3369, S.D. 2, H.D. 2, establishes a Procurement Services Consolidation Working Group (PSCWG), which shall develop a plan for the phased consolidation, under the State Procurement Office (SPO), of all State Executive Branch procurement services and staff within five years, except those of the Department of Education, Hawai'i Health Systems Corporation, University of Hawai'i, and Office of Hawaiian Affairs; and requires the PSCWG to recommend ways to attract high quality procurement professionals to the State. The bill also appropriates unspecified general funds in FY 23 to SPO to support the activities of PSCWG, including the hiring of staff and creation of a phased consolidation plan.

Regarding the concept of a phased consolidation of procurement services within SPO, B&F has concerns that an unintended consequence of consolidating procurement services for such a large number of agencies may hinder the responsiveness to individual impacted agencies.

B&F notes that, with respect to the general fund appropriation in this bill, the federal Coronavirus Response and Relief Supplemental Appropriations Act requires that states receiving Elementary and Secondary School Emergency Relief (ESSER) II funds and Governor's Emergency Education Relief II funds must maintain state support for:

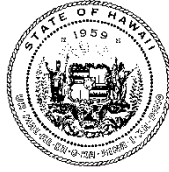
- Elementary and secondary education in FY 22 at least at the proportional level of the state's support for elementary and secondary education relative to the state's overall spending, averaged over FYs 17, 18 and 19; and
- Higher education in FY 22 at least at the proportional level of the state's support for higher education relative to the state's overall spending, averaged over FYs 17, 18 and 19.

Further, the federal American Rescue Plan (ARP) Act requires that states receiving ARP ESSER funds must maintain state support for:

- Elementary and secondary education in FY 22 and FY 23 at least at the proportional level of the state's support for elementary and secondary education relative to the state's overall spending, averaged over FYs 17, 18 and 19; and
- Higher education in FY 22 and FY 23 at least at the proportional level of the state's support for higher education relative to the state's overall spending, averaged over FYs 17, 18 and 19.

The U.S. Department of Education has issued rules governing how these maintenance of effort (MOE) requirements are to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawai'i complies with these ESSER MOE requirements.

Thank you for your consideration of our comments.



**STATE OF HAWAII**  
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TESTIMONY  
OF  
BONNIE KAHAKUI, ACTING ADMINISTRATOR  
STATE PROCUREMENT OFFICE

TO THE HOUSE COMMITTEE  
ON  
FINANCE  
TUESDAY, APRIL 5, 2022; 1:30 P.M.

SENATE BILL 3369, SD2, HD2  
RELATING TO PROCUREMENT

Chair Luke, Vice Chair Yamashita, and members of the committee, thank you for the opportunity to submit testimony on Senate Bill 3369 SD2, HD2, which establishes a Procurement Services Consolidation Working Group. The State Procurement Office (SPO) appreciates the intent of the bill and welcomes the opportunity to be an active participant in the Group, which shall develop a plan for the phased consolidation of all state executive branch procurement services and staff within five years.

The SPO offers the following comments:

- The working group will focus on the executive branch procurement services and staff, except the Department of Education, Hawaii Health Systems Corporation, University of Hawaii, and Office of Hawaiian Affairs, which have their own procurement offices and have their unique procurement issues.
- The working group should be allowed to determine what level of consolidation and procurement support should be provided to suit each State agency's unique needs for best practices.

For example, construction procurement requires highly specialized expertise and professional services in the area of planning, design, architecture, engineering, and construction, and should remain with agencies that procure and oversee construction. Having construction procurement in a centralized format may not be beneficial.

- The working group will need to consider unique procurement that have federal program or grant requirements. For example, the federal Coronavirus Response and Relief Supplemental Appropriations Act has specific compliance requirements on the use of those specific federal funds.
- The SPO appreciates the continued discussion on the merits of this bill and an appropriation amount that would support the activities for the phased consolidation of state executive branch procurement services. Senate Bill 3369, SD1, contained an appropriation amount of \$250,000, which is the best estimate that the SPO can provide.

As stated in our previous testimony, the SPO suggests that the final report by the Procurement Services Consolidation Working Group including the following:

- Certified Training Program  
The development and implementation of a certified training program would ensure that all procurement staff take the necessary training to conduct procurement correctly. The training certification program would be multi-tiered based on methods of dollar thresholds and number of classes or contact hours, with training renewal to occur every five years.
- Procurement Automation System (eProcurement)  
The implementation of a procurement automation system, which is an accounting-oriented, multi-module, data-based system that integrates all procurement activities from solicitation to contract management, should be part of a centralized procurement environment. This procurement automation system will mitigate errors and risk, increase efficiency, and maximize resources. The SPO respectfully requests that the House Committee on Finance consider language regarding the procurement automation system in Senate Bill 3040, SD2, HD1.

Thank you