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**STATE OF HAWAII**  
**DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES**  
P.O. BOX 119, HONOLULU, HAWAII 96810-0119

WRITTEN TESTIMONY  
OF  
CURT T. OTAGURO, COMPTROLLER  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
TO THE  
SENATE COMMITTEE  
ON  
GOVERNMENT OPERATIONS

TUESDAY, FEBRUARY 1, 2022, 3:00 P.M.  
VIA VIDEOCONFERENCE, STATE CAPITOL

S.B. 3369

RELATING TO PROCUREMENT

Chair Moriwaki, Vice Chair Dela Cruz, and members of the Committee, thank you for the opportunity to submit testimony on S.B. 3369. The Department of Accounting and General Services (DAGS) supports the intent of this bill and offers the following comments.

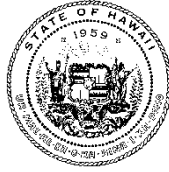
This bill presumes that the procurement needs of all Executive Branch agencies except the Department of Education, Hawaii Health Systems Corporation, and the University of Hawaii are formulaic and mandates consolidation of procurement expertise. DAGS contends that, for construction procurement in particular, including procurement of professional services for planning, design, and construction, is not universally beneficial for all of the remaining Executive Branch agencies, which is also why DAGS has opposed past proposals to recentralize all construction procurement within one primary agency.

Certain agencies have unique additional procurement requirements that cannot be incorporated into a one-size-fits-all format. Failure to meet these requirements may jeopardize

the agencies' mission and programmatic support. This is particularly true for agencies with federal program and/or grant requirements.

DAGS recommends that the working group be allowed to determine what level of consolidation and/or procurement support be provided to suit each agency's individual needs to improve their procurement practices.

Thank you for the opportunity to submit testimony on this matter.



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TESTIMONY  
OF  
BONNIE KAHAKUI, ACTING ADMINISTRATOR  
STATE PROCUREMENT OFFICE

TO THE SENATE COMMITTEE  
ON  
GOVERNMENT OPERATIONS

February 1, 2022, 3:00 P.M.

SENATE BILL 3369  
RELATING TO PROCUREMENT

Chair Moriwaki, Vice Chair Dela Cruz, and members of the committee, thank you for the opportunity to submit testimony on Senate Bill 3369. The State Procurement Office (SPO) appreciates the intent of the bill and offers the following comments.

Decentralized vs. Centralized Procurement

The State of Hawaii's Executive Branch currently operates in a decentralized procurement environment, in which each department is delegated authority to procurement for goods, services, or construction requirements. Very few of the executive branch departments have procurement or purchasing specialists. As mentioned in the bill, many procurements are done by clerical staff, program managers, engineers, and other employees, which can lead to mistakes resulting in increased costs.

The SPO appreciates the concept of a transition of the procurement environment for goods and services for executive branch departments (excluding the Department of Education, the University of Hawaii, and the Office of Hawaiian Affairs) from decentralized to centralized. Construction procurement requires unique and highly specialized expertise in areas such as architecture and engineering and thus should remain with agencies that procure and oversee construction.

Comments

The SPO has researched state counterparts and recommends a four-pronged approach to achieve consistent and fair procurement and contract management statewide: 1) transition from decentralized procurement to one that is centralized, 2) recruitment and retention of qualified

procurement professionals, 3) implementation of a certified training program, and 4) establishment of a comprehensive, full-service procurement automation system, or eProcurement.

The SPO found that successful state government models of centralized procurement provide the following advantages:

- Improved leveraging of the volume of the state's purchasing power
- Creation of key strategic categories
- Provision of more efficient application of procurement and contracting expertise
- Building of centers of excellence (category managers)
- Better coordination for disaster response activities
- Effective response in tackling large scale supply chain disruptions

Centralization will be a long-term goal that will require a transition period of eight to ten years. Departments would first reorganize to create a central procurement office of certified procurement staff within the department to handle all its procurement requirements. This partial centralization, with the component of a strong training program, will provide a foundation for the final transition towards a fully centralized procurement environment. The SPO would work with each of the department's procurement staff to ensure consistency in training and application of procurement statutes and rules.

The SPO appreciates the opportunity to participate in the Procurement Services Consolidation Working Group and collaborate with the heads of the purchasing agencies (HOPA) within the Executive Branch, except the Department of Education, Hawaii health Systems Corporation, Office of Hawaiian Affairs and the University of Hawaii, or their designees.

While the SPO welcomes the opportunity to provide administrative support to the Procurement Services Consolidation Working Group, it needs adequate resources and, at the very least, a full year to assemble the group, hold meetings, conduct extensive research, analyze successful models for centralized procurement, and produce a cohesive, insightful, informative, high-quality report of findings and recommendations to present to the Legislature. With July 1, 2022, as the date of effect of this bill as an Act and the deadline to submit a report twenty days prior to the convening of the 2023 Legislative Session, the Working Group will have six months to address all points in the plan, which will result in a preliminary and incomplete report.

Most of the report will include the results of collaboration within the members of the Working Group, however, for the report to be cohesive and complete, the SPO suggests that the report on centralized procurement also examine the following:

- Recruitment and Retention of Qualified Procurement Professionals  
Recommendations to attract high-quality procurement professionals to work for the State of Hawaii should address both recruitment, retention, and competitive compensation of high-quality procurement professionals. The SPO has found that after its investment of training in procurement professionals, several are often lured by promotions and/or higher-paying procurement positions in the private sector.

- 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 requests that the Legislature consider language regarding the procurement automation system in Senate Bill 3040.

The loss of one-fourth of SPO staff due to resignations and budget cuts already hinders its ability to fulfill the requirements of Chapters 103D, HRS, the Hawaii Public Procurement Code, and 103F, HRS, Purchases of Health and Human Services. Five of the SPO's vital positions (two procurement construction positions, an eProcurement supervisor, health and human services supervisor, and management analyst) were abolished during the 2021 Legislative Session, and vacancies remain unfilled due to procedural hurdles. The SPO thus respectfully requests an extension of time to hire qualified staff to support the Working Group and develop the report, while simultaneously requesting the reinstatement of abolished positions and recruiting to fill existing vacancies.

#### Proposed revisions

The SPO respectfully offers the following revisions to SB 3369:

- On Page 2, SECTION 2, (a)(1), refine the scope of the plan so it focuses only on procurement of goods and services, exclude construction procurement from centralized procurement, and add Office of Hawaiian Affairs:

" (1) "Develop a plan for the phased consolidation of ~~all~~ state executive branch procurement services and staff within five years, except with the exception of all construction procurement, the department of education, Hawaii health systems corporation, ~~and~~ University of Hawaii, and office of Hawaiian affairs, under the state procurement office. The plan shall include:"

In addition to the Department of Education and University of Hawaii, the Hawaii Health Systems Corporation and Office of Hawaiian Affairs operate with their own Chief Procurement Officer (CPO) with the procurement authority to oversee their jurisdiction.

- On Page 3, SECTION 2, (a)(1)(D), refine the scope of the plan so it focuses only on procurement of goods and services:

" (D) Recommendations to enable the state procurement office to provide expert support to the procurement of goods and services activities of all state agencies to meet the needs of the agencies and the public; and

- On Page 4, SECTION 2, (d), revise the submittal date for the report:

“(d) No later than twenty days prior to the convening of the regular session of ~~2023~~ 2024, the working group shall submit to the legislature a report of its findings and recommendations, including:”

- One Page 4, SECTION 2, (3), revise the date of the dissolution of the Working Group to June 30, 2024. This will provide adequate time for meaningful collaboration.

Thank you

DAVID Y. IGE  
GOVERNOR



CRAIG K. HIRAI  
DIRECTOR

GLORIA CHANG  
DEPUTY DIRECTOR

**STATE OF HAWAII**  
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EMPLOYEES' RETIREMENT SYSTEM  
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND  
OFFICE OF THE PUBLIC DEFENDER

ADMINISTRATIVE AND RESEARCH OFFICE  
BUDGET, PROGRAM PLANNING AND  
MANAGEMENT DIVISION  
FINANCIAL ADMINISTRATION DIVISION  
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**WRITTEN ONLY**  
TESTIMONY BY CRAIG K. HIRAI  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE SENATE COMMITTEE ON GOVERNMENT OPERATIONS  
ON  
SENATE BILL NO. 3369

**February 1, 2022**  
**3:00 p.m.**  
**Room 016 and Videoconference**

RELATING TO PROCUREMENT

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

S.B. No. 3369 establishes a procurement services consolidation working group, which shall 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, Hawai'i Health Systems Corporation, and University of Hawai'i, under the State Procurement Office (SPO). The bill also appropriates \$250,000 in general funds in FY 23 to SPO to support the activities of this new working group, including the hiring of staff and creation of a phased consolidation plan.

B&F notes that 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.