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**TESTIMONY  
OF  
SARAH ALLEN, ADMINISTRATOR  
STATE PROCUREMENT OFFICE**

**TO THE SENATE COMMITTEE  
ON  
GOVERNMENT OPERATIONS  
February 04, 2016 1:15 P.M.**

**SB 2493  
RELATING TO PROCUREMENT**

Chair Mercado Kim, Vice-Chair Ihara, and members of the committee, thank you for the opportunity to submit testimony on SB 2493.

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 auditing is not one of them.

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 yearly compliance audits, 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 audits. 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 audits.

While SPO is granted authority to review the procurement practices of agencies and jurisdictions this is not a formal audit function. Auditing is a specific skill set and requires training and expertise to carry out that function. The SPO does not have the resources, skills and expertise to meet this requirement since SPO staff are not trained auditors. 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 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 audits, 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.