

Tightening the screws

Government contracts are notorious for costing millions of dollars and failing to deliver, but the state hopes to reform the procurement process

By Shannon Tangonan

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It's become a familiar, dispiriting tale of the porous government contract written by a state employee who may or may not have expertise in procurement. A vendor is selected and thousands, if not millions, of dollars are earmarked and spent with little, if any, oversight. There is no storybook ending, only the state left with an obsolete or faulty product.

One audit described the Hawaii Health Connector as a glaring example of improper procuring and administering of contracts, resulting in its impending shutdown despite \$200 million in grants.

There was the contract for an accounting of the HI-5 recycling program that started at \$76,400, but ballooned to \$543,374 after three amendments, with little return on investment.

And the long, drawn-out state Department of Taxation's contract with CGI Group Inc., which was paid \$87.5 million to install what state officials now describe as an outdated computerized tax-collection system.

Flawed procurement -- or purchase of goods -- is most often the common denominator when cases of wasteful government spending bubble to the surface. But state Chief Procurement Officer Sarah Allen is hoping that procurement -- on the state level, at least -- will become less vulnerable to missteps in coming months as she forges ahead with initiatives that include beefing up education and training for the state's procurement personnel.

Keeping state government accountable is among Gov. David Ige's priorities as he considers procurement goals as part of his strategic plan.

"My administration and I are working on initiatives and committing to reforms that will restore the public's trust in government, increase efficiency, reduce waste and improve transparency and accountability," Ige told the Star-Advertiser.

Ige in March pulled the plug on payments to Ciber Inc., a technology firm hired to produce a computerized accounting system for the state Department of Transportation. Ciber had been paid more than \$8 million during the previous administration, but the "FAST" project never worked.

In canceling the project, Ige called for change in the way the state conducts business and lamented the millions of dollars spent with "nothing to show for it." The state has since filed a lawsuit against Ciber.

Allen is encouraged by Ige's careful consideration of procurement goals.

"It means that this governor understands the importance of looking at procurement from the aspect of strategy and leadership and also recognizing that there is an entire procurement life cycle that needs to be considered," Allen said.

While spending blunders make headlines, Allen said, those cases should not dominate the procurement conversation. In fiscal year 2015, the state procured \$1.5 billion. And although the negative stories focus on taxpayer dollars down the drain, sometimes the work is salvageable or can be leveraged, she said.

"It doesn't (always) mean that the millions are wasted."

A good portion of government spending is done in an efficient manner, Allen contended.

Yet Allen, who has been director of the State Procurement Office (SPO) since November 2013, is hoping to launch programs that, if implemented correctly, will produce smarter contracts that result in cost savings for taxpayers. The SPO is responsible for procurement at the state's executive branch level, which encompasses 19 departments that includes the Governor's Office. But the office delegates procurement authority to the department heads, who further delegate that responsibility to procurement specialists, at least in some departments.

The system, though, is disjointed with some departments centralizing their procurement officers and others having no procurement specialists.

"Some (departments) have procurement specialists and some do not, which is amazing to me," Allen said.

And because there is no level of consistency in the skills and knowledge that procurers have from one department to another, Allen is proposing a certification process for the state's procurers.

"It's very hard, actually, to find the skill set," she said. Procurers have to manage projects, deal with legalese, administer contracts and be a partner to contractors and their respective departments, Allen said.

"It really is a professional career field," Allen said, adding the state must "elevate the level of procurement expertise across the state ... you can't just give this as a second duty to your forestry chief."

Acting State Auditor Jan Yamane said what often is missing is a clear set of procurement policies and procedures at the department level, and agreed that more guidance and training are in order.

"We have a fiduciary responsibility to safeguard public funds," Yamane said. "We have a responsibility to spend wisely."

But that was not the case when the state auditor's office reviewed the procurement practices of the state Department of Health and found its lack of procurement controls exposes DOH to waste and abuse, according to an audit released in July.

The audit highlighted the DOH's "most glaring example" of its faulty procurement in its 2009 contract with Grant Thornton LLP/PFK Pacific Hawaii LLP, which was awarded a contract to audit certified redemption centers in the department's HI-5 recycling program. Originally bid at \$76,400, the contract grew 611 percent to \$543,374 while its scope shrank and deadline was extended by a year. The contract was so poorly executed, the state is unable to seek restitution, the audit said.

These types of cases underscore the need for certification, which is a main area of focus for Allen.

Another initiative is the creation of a "procurement wizard" or manual that is digitally accessible to procurers. Currently, purchasers have to go to four or five different links if you're looking for regulations, Allen said.

The comprehensive digitized manual would allow users to click on stages in the procurement process and at each stage would offer best practices, examples, attachments, training, statutes, codes, circulars and more, Allen said.

"It's the beginning of our knowledge management initiative and hopefully it'll come out by the end of the year," she said.

Contracts tied to technology and software upgrades often are notorious for poor execution. Last month, state Sen. Donna Mercado Kim suggested the state Department of Taxation overhaul its payment schedule for a computer system upgrade because too much money would be paid to Fast Enterprises LLC too early in the project. The \$60 million contract is being broken down into two phases of about \$30 million each.

Those amounts are in addition to the Tax Department's \$87.5 million in payments to CGI from 1999 to 2011, ostensibly to modernize the tax collection system, but which produced old technology by the time it was done.

Allen and Yamane said that most information technology (IT) procurements are fraught with problems, citing 90 percent of federal IT procurements of more than \$10 million fail. "It's not just Hawaii," Allen said, noting that government bureaucracies are slow to keep up with the pace of IT.

Setting benchmarks and milestones and requiring payment upon deliverables should be part of the procurement process and written into contracts, Allen said.

"You have great procurements coming out, and others not so much because there's not consistent training across the state," she said.

Good contracts require strategy planning and extensive market research on the front end, Allen explained.

"No one really understands that if you spend more time there, you're more than likely to be successful," she added.

And while much of Allen's focus is to beef up that training, the office also wants to make the purchasing process less cumbersome.

Within a few months, Allen hopes to put out a request for proposals to establish an eProcurement system that will allow for more transparency, consistency and accountability. Vendors would register on the site and a database would be created and purchases could be made with a state pCard, or purchasing card.

The system, which Allen described as a "less sexy Amazon," would simplify purchases so that procurement specialists are able to concentrate on larger acquisitions. It would allow the SPO to see what items are being purchased by departments and use that information to leverage economies of scale and find cost savings.

Right now, there are no templates or boilerplate contracts available through SPO, although some might exist among departments, Allen said. The plan, however, is to have those available when the e-Procurement system is set up.

The e-Procurement would also benefit those who do business with the state, creating a one-stop shop.

"Right now we're at the bottom of the list of ease of doing business" among the 50 states, Allen said. "We're dislocated ... we don't make it easy right now."

HOW SOURCES ARE SELECTED FOR PROCUREMENT		
METHOD	BASIS FOR USE	BASIS OF AWARD
Competitive Sealed Bidding (IFB)	Minimum specifications/scope of work are definable.	Lowest responsive, responsible bid.
Small Purchases	Purchases of smaller quantities for goods and services of less than \$100,000 and construction less than \$250,000.	Lowest responsive, responsible quotation.
Competitive Sealed Proposals (RFP)	Competitive sealed bidding is not practicable; price is not the most critical factor.	Based on RFP evaluation criteria.
Multi-step Competitive Sealed Bidding	Used when pre-qualification of offerors necessary before considering price. Follows RFP as first step; IFB as the 2nd step.	Lowest bidder of qualified offerors.
Sole Source	Only one source for the required good, service, or construction.	Approved single source at agreed prices.
Emergency	Used to respond the needs that are immediate and serious that are a threat to life, public health, welfare, or safety.	Lowest responsive and/or responsible offeror.
Professional Services	Professional services as defined in rules and statutes.	Qualified respondent that meets determined criteria; prices are agreed to.
Request for Interest (For Federal Grants)	Used prior to applying for the federal grants where time is limited or economic situations require a "quick" selection process.	Criteria determined in RFI.

Source: State Procurement Office

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