



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
Senate Committee on Judiciary and Government Operations
March 23, 2010 at 9:30 a.m.

by
Howard Todo
Vice President for Budget & Finance/CFO, University of Hawaii

HB347 HD2 SD1 – RELATING TO THE UNIVERSITY OF HAWAII

Chair Taniguchi, Vice Chair Takamine and Members of the Committee:

This Bill provides the University with flexibility in procurement. The University had this flexibility from 1998 through 2004 and used it responsibly and to great benefit during that period. This measure would assist us in implementing much needed deferred maintenance and capital renewal projects on all our campuses more quickly, shortening delays in the contracting and procurement process. The University has a deferred maintenance backlog in excess of \$350 million. These projects are already identified, involve little in the way of permitting and are ready to launch quickly, thus putting Hawaii's construction workers to work.

In addition, please let me give you the following specific supporting points:

1. Providing the University of Hawaii with administrative flexibility has been accepted public policy embraced by all branches of government and the general public.

In 1997 the Governor, Senate President and Speaker of the House created an unprecedented blue ribbon Economic Revitalization Task Force composed of Hawaii's business, community and government leaders. Their objective was to develop recommendations on how to strengthen Hawaii's economy. Recognizing the importance of the University of Hawaii as a major economic engine for the State, one of the clear conclusions of the task force, accepted by all, was that autonomy for the university would materially enhance the university's performance of its constitutional responsibilities and allow it to contribute more meaningfully to the economic revitalization of the State of Hawaii. In 1998 the Legislature passed and the Governor signed Act 115 granting the University of Hawaii greater flexibility in managing its own affairs and, most notably, exempting the University of Hawaii from the State Procurement Code. This flexibility allowed the Board of Regents to adopt University procurement procedures consistent with State procurement law, but not dependent on the State governmental processes, procedures and resources. Taking this flexibility even further, in the 2000 legislative session a constitutional amendment was approved to provide the University of Hawaii with even greater autonomy. This constitutional amendment was overwhelmingly ratified by Hawaii's voters in the 2000 election.

2. The University has used this flexibility responsibly and effectively.

As required by Act 115, the University developed and implemented its own internal procedures and policies for procurement. The University used its flexibility to create the most advanced and open electronic public sector procurement system in the State of Hawai'i. An electronic sourcing system called "SuperQuote" was established at no cost to the University, through which requests for quotation are solicited online. By making use of the Internet, quotes are received faster, the process is more open, competition is increased resulting in lower prices, and there is automatically an audit trail. The University also implemented the first purchasing card (PCard) program in the State. Accountability is maintained through various restrictions on the type and amount of allowable spending. The PCard program reduces time, costs and effort in purchasing, including enabling purchases over the Internet. Both SuperQuote and the PCard system have direct electronic interfaces to the University's financial management information system. This eliminates duplicate data entry in purchasing, which further reduces administrative costs and decreases a potential source of errors. The University developed comprehensive and thorough written policies and procedures appropriate for these modern practices. The University's Administrative Procedures on Procurement have been available online for many years and can be found at the following website: <http://www.hawaii.edu/apis/apm/a8200.html>. While the current versions of these procedures reflect the 2005 revocation of the University's Act 115 flexibility, the previous procedures that took advantage of the flexibility are also available in the online archives at <http://www.hawaii.edu/svpa/apm/archives/a8200.html>.

3. The University is fully committed to openness, appropriate public oversight and accountability.

In improving its internal procurement system, the University of Hawai'i completely honored the statutory requirement to comply with the intent of the State procurement code. While dramatically increasing open competition and improving operational efficiency, the University has also embraced applicable federal procurement guidelines in its new processes and systems. The University procedures developed to implement the flexibility granted by Act 115, as described above, were all reviewed, discussed and approved by the Board of Regents at duly noticed open public meetings conducted under the State "Sunshine" laws. In addition to a bevy of internal control processes, the University's procurement practices are independently audited each year to ensure fair and equitable treatment of vendors, to foster effective broad-based competition in order to secure best value in purchases, and to maintain the integrity of the procurement process.

4. The public interest is best served by restoring the University's flexibility to establish its own procurement policies.

The widely accepted movement to increase University flexibility has been widely supported by the Legislature over the last decade, by the last two Governors, by the business community and by the voting public. One of the most visible outcomes of this movement was the law passed by the 1998 Legislature granting the University an exemption from the state procurement processes. The University's own procurement system and processes streamlined purchasing to reduce administrative costs, increased competition, reduced the costs of good and services procured, increased openness and auditability, and reduced the costs for vendors to do business with the University. Our faculty and staff used this direct responsibility and accountability to help the University of Hawai'i respond to changing conditions, new opportunities and Hawai'i's needs in a more timely and effective manner. In

addition, the University's flexibility reduced cost to State Government by relieving DAGS and other agencies of any responsibility for University procurement.

5. This flexibility is needed now to help the economy.

With \$350 million in capital renewal and deferred maintenance projects, the University can be a significant part of the solution to Hawai'i's current economic downturn by directly creating or preserving several thousand jobs. Now is the moment for bold action. This measure will help the University to address its deferred maintenance needs and assist the people and businesses of Hawai'i to weather these difficult economic times. This will also support President Greenwood's *Project Renovate to Innovate* initiative, which she announced in her State of the University address.

We would like to note that this committee and the Legislature did pass legislation last session which made improvements in procurement. We thank you for those changes and applaud your efforts. We do, however, believe that additional changes can be made which would be beneficial for all state agencies. In addition, as stated earlier, the University has, using flexibility it had in the past, pioneered improvements in procurement practices, which have been adopted by the state subsequently, thus benefiting all public entities. We suggest that we be allowed this flexibility again, for a 5 year period, in the way of a pilot program,

Thank you for the opportunity to testify in support of this measure.