



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
House Committee on Finance

April 3, 2006

by

Sam Callejo

Vice President for Administration

SB 2997, SD 1 Relating to Procurement

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

The University of Hawaii supports SB 2997 SD1 and requests that this measure be amended to also restore the University's exemption from the Hawaii public procurement code along with those of HSDC, NELHA and HTDC.

The University was first granted procurement flexibility by the Legislature in 1998 and used this flexibility responsibly and with great public benefit until its revocation as of January 1, 2005. We respectfully request the restoration of flexibility in procurement, along with these other agencies that also lost their exemptions at the same time.

The first point we would like to make is that 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.

The second point we would like to make is that the University 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 Hawaii. 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. As with a personal credit card, institutional purchases can be made very quickly. Accountability can be maintained through various restrictions on the type and amount of allowable spending. The PCard program enables our faculty and staff to make purchases over the Internet, which reduces time, costs and effort in purchasing. 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 at <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>.

Our third point is that the University remains fully committed to openness, appropriate public oversight and accountability.

In improving its internal procurement system, the University of Hawaii 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 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.

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

The widely accepted movement to increase University flexibility has been 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 Hawaii respond to changing conditions, new opportunities and Hawaii's needs in a more timely and effective manner. In addition, the

University's flexibility actually reduces the cost of State Government by relieving DAGS and other agencies of any responsibility for University procurement.

We ask you to amend this bill as requested in support of the University of Hawaii and our work for the entire State. This will have both operational and symbolic importance in helping the University of Hawaii exercise the flexibility it needs to be a major engine for the economic diversification of Hawaii.

Thank you for this opportunity to testify on SB2997 SD1. We would be pleased to work with the committee to provide specific statutory language that would restore the University's procurement exemption.