

# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

## Audit of State Contracting for Professional and Technical Services

### Summary

The Auditor initiated this audit of state contracting for professional and technical services in response to an invitation by the National State Auditors Association (NSAA) to have Hawaii participate in a joint audit project with other states. The audit covered the two year period of FY1992-93 and FY1993-94.

The agencies selected for this audit were the Airports Division of the Department of Transportation (Airports Division), the Child and Adolescent Mental Health Division of the Department of Health (CAMHD), and the High Technology Development Corporation (HTDC) which is administratively attached to the Department of Business, Economic Development and Tourism (DBEDT).

The results of our audit indicate that there is inconsistency in the adequacy of internal control structures over contractual services within the state. As Chapters 2 and 3 demonstrate, the internal controls of the Airports Division and CAMHD are insufficient to protect public assets from waste, fraud, and inefficient use. However, as Chapter 4 illustrates, HTDC has developed and implemented an internal control structure that is sound.

The Airports Division's internal control structure over contractual services is clearly inadequate. The division fails to maintain competition in the contractor selection process. It fails to adequately plan the desired outcome, scope, and funding of projects. Additionally, the Airports Division neglects to adequately monitor the efforts of its project managers. This has resulted in the waste and inefficient use of public funds including more than \$102 million in payments to contractors for canceled projects. There were no apparent benefits to the public.

CAMHD's administrative controls are also inadequate. The division exercises poor control over contract file access and whereabouts. No system is in place to ensure complete and organized contract files. There are no clear policies and procedures over authorization of payments to contractors. Not all purchases of service are made under contract. Contractors are allowed to work before contract execution. CAMHD's monitoring and evaluation efforts also need improvement. The division does not properly plan its contract monitoring efforts and fails to evaluate contract outcomes. Lastly, CAMHD failed to comply with the reporting requirements of Chapter 42D, HRS.

In contrast to the Airports Division and CAMHD, the High Technology Development Corporation has developed and implemented a sound internal control structure. It has a trained and qualified staff, clearly written and detailed contracts, and generally maintains competition in the contractor selection process. HTDC has also been diligent in its contractual service evaluation efforts. It follows an effective monitoring approach during



the course of the contract and evaluates contract outcomes. We found that during the audit period HTDC did allow contractors to begin services prior to contract execution. However, HTDC was in the process of amending procedures to correct this problem at the time of our fieldwork.

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## Recommendations and Response

For this audit we recommend that the Airports Division should follow a competitive negotiation process in selecting its contractors. The Airports Division should also develop and enforce an internal control structure which requires that: 1) a thorough evaluation of the need for and the availability of resources to pay for a project be documented before contracts are entered into, and 2) contracts include clearly defined outcomes, outcome measurements, scope, and contractor compensation before they are executed. Additionally, the Airports Division should develop and implement internal control procedures designed to monitor adequately the effectiveness of project managers.

To improve contract administration at CAMHD, we recommend that the division chief establish controls and procedures over filing contracts, as well as clear payment policies and procedures. The division chief should see that the program specialist is properly qualified and trained to: 1) establish and enforce a policy ensuring complete and organized contract files, 2) establish and enforce monitoring and evaluation policies and procedures, and 3) formulate a manual to guide staff in the performance of their contract administration duties. Staff should be properly trained. Contractors should be prohibited from providing services until a fully executed contract is in place.

We recommend that HTDC continue to exercise its effective contract management controls. In addition, HTDC should insure that all providers of services be under a fully executed contract before work is allowed to start and that competitive bidding be further encouraged to insure the best price and product for the state.

We requested the agencies to comment on our tentative audit recommendations. The Department of Transportation chose instead to criticize our audit report. The department alleged that we failed to recognize that 1) controls over the contracting process extend far beyond the Airports Division, 2) the Airports Division exercised prudence in reducing the scope of its program and its contracts when it became apparent that passenger traffic and financial projections were not being realized due to changing economic conditions, and 3) the Airports Division had implemented corrective actions and procedures. The department further claims that our report contains inaccuracies, misstatements of facts, and glaring omissions. The department raised other issues and concerns about our findings that we address in our comments on agency responses.

The response from the Department of Health recognizes the deficiencies cited in our report and claims that many of them have been addressed. It requested that the problems be placed in historical perspective and that specific examples, some of which we address in our comments on agency responses, be clarified. Overall, however, we have little basis to change our report—audit findings are developed on our own fieldwork during the audit period and we stand by our evidence.

HTDC chose not to respond to our report.

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