

# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

## Audit of Contract Administration and the Office of Space Industry in the Department of Business, Economic Development and Tourism

### Summary

The Department of Business, Economic Development and Tourism undertakes a variety of programs to stimulate economic growth and support business in Hawaii. The department relies extensively on contracts to carry out its programs. Between 1990 and 1993, the department spent over \$152 million on contracts.

The Auditor initiated the audit of contract management because of concerns over the number, size, and administration of the contracts. After the audit began, the 1994 Legislature requested the Auditor to give priority to the Office of Space Industry (OSI) in the then-ongoing contract audit.

In the contract management audit, we found that DBEDT entered into contracts without performing a pre contract analysis for each one that would justify the contract and identify the expected outcomes and benefits. Consequently, some contracts resulted in negligible or questionable benefits because it was not possible to compare the end result with any expected outcome.

Several contracts contained poorly defined and generalized provisions for the scope of services. This allowed contractors a great deal of latitude which in turn can cause misunderstandings and contract disputes. DBEDT contracting practices offered no assurance that contracts were awarded fairly and equitably on the basis of open competition. Consequently, there is no assurance that the State obtained the best service or the best price.

DBEDT did not always protect the interest of the State. It allowed contractors to begin work prior to the execution of the contract, made upfront payments and automatic payments to contractors without regard to the contractors' progress, and allowed changes to be made to the contract scope, terms, and compensation without any supplemental contract agreements. In addition, personal service contract files did not always contain adequate documentation to ensure fulfillment of the required scope of services and a proper audit trail.

DBEDT does not have an adequate system to ensure that its divisions are monitoring contracts uniformly and effectively. This allowed payments to contractors for services not yet performed. Also, contractors were allowed reimbursements for questionable costs.

In the audit of the Office of Space Industry, we found that DBEDT and OSI pushed ahead without a strategic plan that would ensure a systematic and orderly progress



in space activities. This resulted in a series of missteps that resulted in increased contract costs without any significant economic growth in a space industry.

Like other DBEDT offices, OSI did not clearly justify its contracts or specify the scope of services. This added to the cost of contracting. In addition, contracts were awarded in a questionable manner and achieved few demonstrable benefits.

Most of OSI's current programs are similar to those of the High Technology Development Corporation (HTDC). Most of these programs involve the Maui High Performance Computing Center. To prevent any duplication of effort, it may be more efficient to transfer those similar programs to HTDC.

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## Recommendations and Response

For the contract management audit we recommend that the director of DBEDT seek the assistance of the chief procurement officer to develop policies and procedures to comply with the new procurement law. Specific attention should be paid to: 1) requiring a formal analysis of the need for contracting, including expected benefit and outcome of any proposed contract; 2) ensuring that the scope of service in each contract is sufficiently specific to ensure that the expected outcome and benefits of the contract are achieved; 3) awarding contracts on an open and competitive basis to the extent feasible; 4) containing costs, particularly for reimbursable expenses; 5) developing a clearly defined monitoring procedure that makes payments based on percentage of work completed and insures adherence to contract terms; and 6) evaluating each contract upon its completion to determine if the intended outcomes were achieved.

We recommend that DBEDT: 1) require any changes to the scope, term, and/or compensation of the contract to be in the form of a formal contract amendment; 2) allow no work to begin before a formal contract is executed; and 3) require complete contract documentation for personal service contracts. We also recommend that DBEDT request an opinion from the State Ethics Commission on the propriety of allowing department personnel to accept frequent gifts from contractors.

For the audit of the Office of Space Industry, we recommend that the Legislature transfer OSI programs to the High Technology Development Corporation.

We recommend that DBEDT cease expending funds on a space launch facility unless clear evidence of private investment interest in such a facility can be demonstrated.

DBEDT maintained that the examples were not current and that the deficiencies have since been corrected. The department, however, agreed with the recommendations. We note that our samples extended from 1989 to the present and reflect the need for improvement.

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