
Procurement Examination of the Department of Transportation

A Report to the
Governor
and the
Legislature of
the State of
Hawai'i

Report No. 13-04
May 2013



THE AUDITOR
STATE OF HAWAI'I

Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawai'i State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. Financial audits attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. Management audits, which are also referred to as performance audits, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called program audits, when they focus on whether programs are attaining the objectives and results expected of them, and operations audits, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. Sunset evaluations evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. Sunrise analyses are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. Health insurance analyses examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. Analyses of proposed special funds and existing trust and revolving funds determine if proposals to establish these funds are existing funds meet legislative criteria.
7. Procurement compliance audits and other procurement-related monitoring assist the Legislature in overseeing government procurement practices.
8. Fiscal accountability reports analyze expenditures by the state Department of Education in various areas.
9. Special studies respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawai'i's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



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“The overhead calculation will not be subject to a [sic] audit/review.”

Contract language that prohibited the Airports Division from auditing Parsons' labor multiplier calculations.

Recommendations

Response

Prior Audits

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<http://www.state.hi.us/auditor>

Procurement Examination of the Department of Transportation

Report No. 13-04, May 2013

Dependence on and accommodation of contractors subverts the public interest

Airports Division surrendered oversight and management responsibilities to contractor

We identified procurement issues throughout the Department of Transportation; however, noncompliance with the State's procurement code was not shared equally among divisions. Especially troubling was the pattern of recurring violations and questionable practices we found in the Airports Division (Airports), which in fiscal years 2009 and 2010 accounted for approximately 30 percent of the department's total procurements of \$417 million and \$467 million in goods and services, respectively. Because of Airports' disproportionate number of violations and the large amounts of goods and services procured, we focused our reporting on the division's material weaknesses, as required by generally accepted government auditing standards.

In 2006, Airports hired Parsons Transportation Group, Inc. to manage its 12-year, \$1.7 billion program to modernize the Honolulu International Airport. According to Airports, hiring a third-party program manager was necessary because the project size and scope are beyond the capabilities of Airports staff. However, we found that Airports not only outsourced its management functions, it also removed itself from parts of the decisionmaking process, surrendering key oversight and management responsibilities. This disengagement resulted in questionable allowances to the program manager, such as the provision of rent-free facilities and the reimbursement of \$570,000 in office renovation expenses and \$21,000 for "team-building" training.

Persistent mismanagement resulted in delays and cost overruns

Airports is also unwilling or unable to properly administer and manage contracts that it oversees directly. Again, we found a persistent overreliance on and accommodation of contractors, which often resulted in cost over-runs, time delays, and procurement violations. For instance, Airports did not procure a new security contract in a timely manner, allowing the original contract to be extended three times, exceeding the original contract term limit by 16 months and \$37.7 million. In addition, Airports failed to do a cost analysis for the construction of field offices for projects at the Hilo, Lihue, and Kahului airports. The eventual amount paid for the construction of one individual field office was nearly \$1 million, almost 30 times the amount we estimated it should have cost.

Agency Response

The department did not disagree with nor dispute any of our findings. According to the director, a new administration has assumed a stronger leadership role and continues to emphasize the importance of compliance with procurement laws and rules. For instance, the director explained that the department now charges its consultants rent for use of state-owned facilities. The department has also begun auditing the labor multiplier of all consultants' contracts. One such audit resulted in a lowering of Parsons' multiplier from 2.88 to 2.36. In addition, the director assures us that staff are now required to complete appropriate procurement training before procurement authority is granted.

Procurement Examination of the Department of Transportation

A Report to the
Governor
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Legislature of
the State of
Hawai'i

Conducted by

The Auditor
State of Hawai'i
and
Accuity LLP

Submitted by

THE AUDITOR
STATE OF HAWAI'I

Report No. 13-04
May 2013

Foreword

This is a report on the procurement examination of the Department of Transportation, State of Hawai'i, for the fiscal years ended June 30, 2009 and June 30, 2010. The examination was conducted pursuant to Section 23-4, Hawai'i Revised Statutes, which requires the State Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions. The examination was conducted by the Office of the Auditor and the certified public accounting firm of Accuity LLP.

We wish to express our appreciation for the cooperation and assistance extended by the director and staff of the Department of Transportation during the course of the examination.

Jan K. Yamane
Acting State Auditor

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Chapter 1

Introduction

This is a report of our procurement examination of the Department of Transportation (DOT) for fiscal years ended June 30, 2009, and June 30, 2010. The examination was conducted by the Office of the State Auditor and the independent certified public accounting firm Accuity LLP in response to Act 162, Session Laws of Hawai‘i (SLH) 2009, which mandated the Auditor to perform a financial audit of the department, including an analysis of its accounting procedures and procurement practices. The examination was conducted pursuant to Section 23-4, Hawai‘i Revised Statutes (HRS), which requires the Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions.

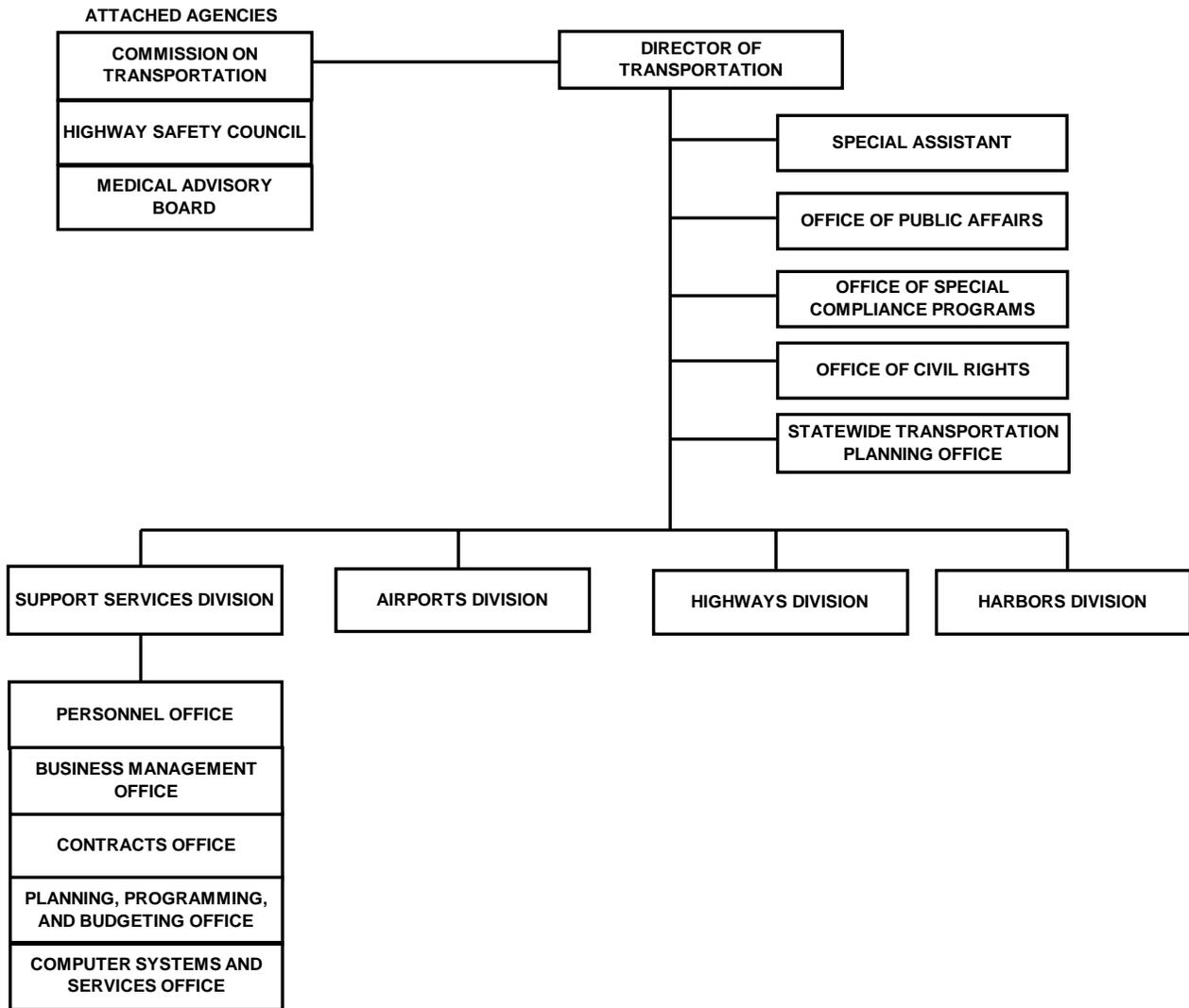
Background

The Department of Transportation was formed shortly after Hawai‘i became a state in 1959. The department’s mission is to provide a safe, efficient, accessible, and inter-modal transportation system that ensures the mobility of people and goods, and enhances and preserves economic prosperity and the quality of life. The department consists of three modal divisions—airports, harbors, and highways—as well as a Support Services Division (commonly referred to as the Administration Division). The department is responsible for planning, designing, constructing, operating, and maintaining state facilities in all modes of transportation, including air, water, and land. To achieve these objectives, the department coordinates with other state, county, federal, and private agencies.

The DOT provides, operates, and maintains 11 commercial service airports, four general aviation airports, ten commercial harbors, and 2,450 lane miles of highway.

Exhibit 1.1 displays the DOT’s organizational structure. Exhibit 1.2 is a summary of financial results for DOT by division for the fiscal year ended June 30, 2009.

Exhibit 1.1
Department of Transportation Organizational Chart



Source: Department of Transportation

Exhibit 1.2**Department of Transportation Summarized Financial Results, Year Ended June 30, 2009
(rounded to nearest thousand)**

	<u>Airports</u>	<u>Harbors</u>	<u>Highways</u>	<u>Administration</u>	<u>Combined Total</u>
Revenues					
Program revenues	\$ 265,676,000	\$ 74,612,000	\$ 252,714,000	\$ -	\$ 593,002,000
General revenues, including investment income (loss)	58,552,000	(1,430,000)	156,309,000	17,539,000	230,970,000
Total revenue	324,228,000	73,182,000	409,023,000	17,539,000	823,972,000
Expenses					
Depreciation	88,600,000	17,929,000	221,934,000	474,000	328,937,000
Other operating expenses	235,529,000	50,224,000	252,414,000	16,198,000	554,365,000
Nonoperating expenses	58,141,000	12,581,000	15,067,000	-	85,789,000
Total expenses	382,270,000	80,734,000	489,415,000	16,672,000	969,091,000
Capital contributions	49,549,000	22,714,000	-	-	72,263,000
Extraordinary loss	-	(41,354,000)	-	-	(41,354,000)
Transfers out (net)	-	(2,524,000)	(13,082,000)	(2,558,000)	(18,164,000)
Change in net assets	\$ (8,493,000)	\$ (28,716,000)	\$ (93,474,000)	\$ (1,691,000)	\$ (132,374,000)

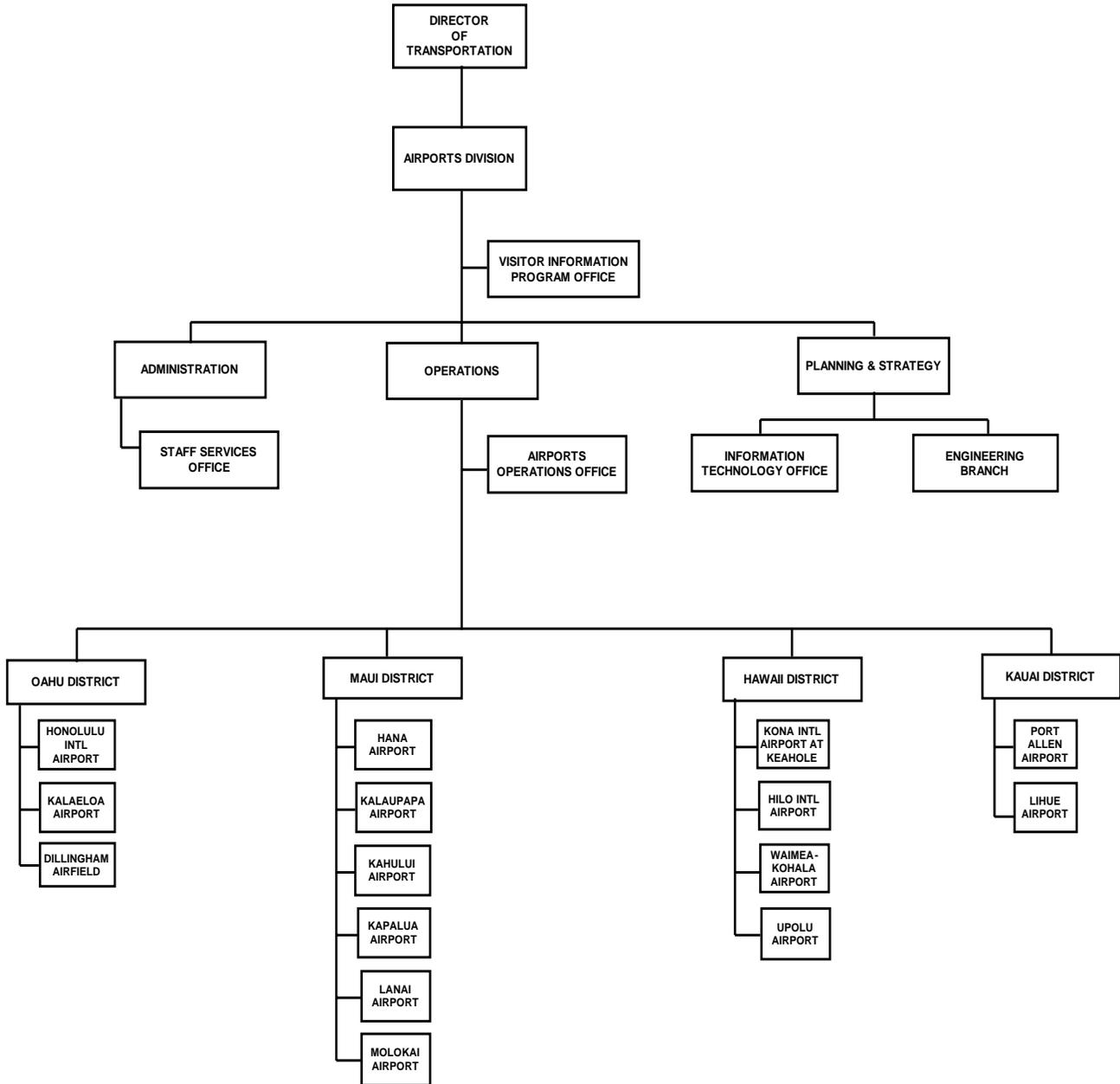
Source: Compiled by Accuity LLP based on audited financial statements of DOT's divisions

Airports Division

The Airports Division (Airports) is responsible for developing, managing, and maintaining a safe and efficient global air transportation organization under a single airport system. Airports comprises four districts (O'ahu, Maui, Hawai'i, and Kaua'i), which each maintain various airports and airfields around the State. Airports also includes the following offices: Staff Services, Visitor Information Program, Information Technology, Airport Operations, and Engineering Branch.

Exhibits 1.3 and 1.4 illustrate Airports' organizational chart and sources of revenue for the fiscal year ended June 30, 2009, respectively.

Exhibit 1.3 Airports Division Organizational Chart



Source: Department of Transportation, Administration Division

Exhibit 1.4**Airports Division Revenues, Year Ended June 30, 2009 (rounded to nearest thousand)**

Concession fees	\$ 114,063,000
Rental car customer facility charges	8,608,000
Passenger facility charges	24,786,000
Other rentals and fees	135,760,000
Taxes and grants	22,612,000
Interest income	18,399,000
Total revenue	<u>\$ 324,228,000</u>

Source: Airports Division audited financial statements

Harbors Division

The Harbors Division (Harbors) manages and operates a statewide commercial harbors system that facilitates the efficient movement of people and goods to, from, and between the state's islands. Harbors is also responsible for planning, designing, constructing, operating, and maintaining state facilities for all modes of water transportation. Harbors currently provides, operates, and maintains ten commercial harbors.

Highways Division

The Highways Division (Highways) is tasked with providing a safe, efficient, and accessible highway system by utilizing available resources to maintain, enhance, and support land transportation facilities in the state.

Support Services Division

The Support Services Division (Administration) consists of eight offices: 1) Statewide Transportation Planning Office, 2) Office of Civil Rights, 3) Office of Special Compliance Programs, 4) Personnel Office, 5) Contracts Office, 6) Computer Systems and Services, 7) Business Management Office, and 8) Planning, Programming, and Budgeting Office. Administration's primary function is to support the department's three modal divisions by providing overall coordination, uniform reviews, and special or unique services that affect more than one division.

The Contracts Office within Administration is responsible for overseeing the procurement and award of goods, services, and construction by the department and for advising the department on compliance with the *Hawai'i Public Procurement Code*, Chapter 103D, HRS.

Department of Transportation procurement structure

Statewide procurement is governed by the *Hawai'i Public Procurement Code* and the State Procurement Office (SPO). Together, they provide authority for procurement rules and procedures for all governmental bodies in the State. The DOT follows SPO's guidance on state procurement.

State procurement code and process

Chapter 103D, HRS, was enacted in 1993 to promote economy, efficiency, and effectiveness in the procurement of goods, services, and construction of public works for the State and counties. The statute applies to all procurement contracts made by state governmental bodies, unless specifically exempted. The procurement process is meant to foster broad-based competition, provide best value to the State, and ensure fiscal integrity, responsibility, and efficiency.

The procurement code also established the SPO, which is administratively attached to the Department of Accounting and General Services. The SPO advises governmental bodies on the procurement process and distributes procurement circulars, guidance, and directives to all jurisdictions. The SPO administrator is the chief procurement officer (CPO) for the executive branch, including the Department of Transportation. The CPO is responsible for performing periodic reviews of the procurement practices of all governmental bodies; assisting, advising, and guiding in matters regarding procurement; developing and administering a statewide procurement orientation and training program; and developing, distributing, and maintaining a procurement manual for state officials and a guide for vendors.

A chief procurement officer may delegate any authority conferred by Chapter 103D, HRS, to designees or to any department, agency, or official within his or her respective jurisdiction. In the case of DOT, the SPO administrator has delegated CPO authority to the director of transportation. Chief procurement officers' responsibilities for their respective jurisdictions include: procuring or supervising the procurement of goods, services, and construction; exercising general supervision and control over all inventories; and establishing and maintaining programs for the inspection, testing, and acceptance of goods, services, and construction. Operational procedures consistent with Chapter 103D, HRS, and Hawai'i Administrative Rules (HAR) may be adopted within each jurisdiction to assist in performing these duties.

During the fiscal years we examined, the director of transportation had delegated his CPO authority to designated personnel within the DOT via various SPO procurement delegation forms. The forms indicate the individuals to whom the director has delegated procurement authority and the specific levels of authority delegated to those individuals.

Department of Transportation procurement process

The DOT's procurement process starts within each division. Divisional project managers identify goods and services needed and determine the appropriate procurement method. Depending on the type of procurement

as defined in Sections 103D-301 to 307, HRS, the divisions procure goods directly or work through the department's Contracts Office.

The DOT's staff manual contains internal policies and procedures on procurement. It also provides guidance on competitive sealed bids, competitive sealed proposals, professional service contracts, small purchases, sole source procurements, emergency procurements, and exempt procurements. In addition to the manual, DOT has access to SPO Circulars and SPO training materials for direction on procurement. The Airports Engineering Section also maintains a database that provides guidance and direction on the contracting process as well as template forms.

Procurement methods

Chapter 103D, HRS, provides for various types of procurement methods. The DOT employs seven of these.

1) Competitive sealed bids. Divisional project managers are responsible for preparing bid documents, public notices as required by the policy office, review of bids, and recommendations to award. The Contracts Office is responsible for scheduling advertisement dates, arranging for printing of bid documents, distributing bid documents, reviewing qualifications of bidders, and receiving and opening bids for all formal contracts. Projects are awarded to the lowest bidder. If only one responsive bid is received following an invitation for bid and the bid appears fair and reasonable, the project manager submits to the CPO a request for approval to negotiate and award a contract to the single bidder. If no bids are received or the lone response does not appear fair and reasonable, the project manager submits a request to use an alternative procurement method.

2) Competitive sealed proposals. When competitive sealed bidding is not practical or advantageous, divisions may enter into competitive sealed proposals, provided the director or designee determines it is more advantageous to do so. The Contracts Office publishes in a newspaper of general circulation the public notice requesting proposals for goods, services, and construction. If applicable, the Contracts office also publishes notice in a local paper on the island served by the procurement. The Contracts Office receives and holds the proposals and modifications until the due date for proposals. After the submission deadline, the Contracts Office prepares a register of proposals, which is open to public inspection after contract award.

An evaluation committee ranks the proposals. The three responsive and responsible offerors who submitted the highest-ranked proposals are included on a priority list. The evaluation committee holds discussions

with the three offerors to promote understanding of the department's requirements and the offeror's proposal and to facilitate arriving at a contract that will be most advantageous to the department. After the best and final proposals are received, the evaluation committee conducts a final evaluation and submits a recommendation of award to the director for approval.

3) Professional service contracts. The department contracts with professional firms for architectural, engineering, surveying, landscape architectural, real property appraisal, audit, accounting, and any other service to which terms and conditions, including costs, must be negotiated. At least annually, the department places an advertisement in a newspaper of general circulation inviting professionals to submit statements of qualifications and expressions of interest while the contracts officer forms an initial screening committee. The committee prepares and maintains a current roster of qualified professionals in groups corresponding to areas of expertise, experience, size, and financial capability.

When specific professional services are identified, an evaluation committee is created to select a professional firm, with the project manager serving as committee chairperson. The evaluation committee prepares a memorandum designating three or more of the most qualified professionals and submits the names together with a summary of qualifications to the director. The director evaluates the qualifications of the firms and ranks them. Upon the director's approval, the selected professional firm and all other firms are notified.

4) Small purchases. The SPO's small purchase procedures prohibit parceling or intentionally dividing a purchase of the same or related goods, services, or construction into several purchases of smaller quantities in order to evade statutory competitive bidding requirements. Before July 1, 2009, small purchase thresholds were \$50,000 for goods and services and \$100,000 for construction. Effective July 1, 2009, the thresholds were raised to \$100,000 for goods and services and \$250,000 for construction.

5) Sole source procurements. A sole source contract may be awarded for goods, services, or construction without competition only after written approval by the CPO. Sole source contracts may be used for expenditures for goods and services of \$10,000 or more and construction of \$25,000 or more, unless expressly exempted from public bidding by law or regulation.

6) Emergency procurements. The department may authorize procurements without competitive sealed bids when an emergency situation exists. An emergency situation is one of unusual or compelling

urgency that creates a threat to life, public health, welfare, or safety by reason of major natural disaster, epidemic, riot, fire, or other reason that may be determined by the director.

7) Exempt procurements. Exempt procurements are not specifically addressed in the department's procurement manual. However, DOT refers to SPO circulars as well as other SPO training materials on procurement of goods and services. In addition, Section 103D-102, HRS, provides direction in determining specific procurements that are exempt from Chapter 103D, HRS. Exempt procurements require a specific SPO form and approval by the CPO.

Exhibit 1.5 summarizes the department's procurement transactions by method for fiscal years ended June 30, 2009 and 2010.

Exhibit 1.5

Department of Transportation Summarized Procurement Transaction Data, FY2009 and FY2010 (unaudited) (rounded to nearest thousand)

Type of Procurement	FY2009		FY2010	
	No.	Purchases / Contracts Executed	No.	Purchases / Contracts Executed
Airports Division				
Small Purchases	547	\$ 1,125,000	419	\$ 664,000
Exemptions	842	\$ 3,584,000	797	\$ 2,796,000
Sole Source	24	\$ 419,000	17	\$ 320,000
Emergency	3	\$ 56,000	6	\$ 35,000
Competitive Sealed Bid	66	\$ 120,701,000	37	\$ 100,614,000
Competitive Sealed Proposal	1	\$ 769,000	-	\$ -
Professional Services	28	\$ 12,368,000	23	\$ 22,923,000
	1,511	\$ 139,022,000	1,299	\$ 127,352,000
Harbors Division				
Small Purchases	1,394	\$ 6,156,000	732	\$ 929,000
Exemptions	49	\$ 357,000	49	\$ 1,427,000
Sole Source	2	\$ 53,000	-	\$ -
Emergency	2	\$ 102,000	11	\$ 411,000
Competitive Sealed Bid	43	\$ 28,907,000	28	\$ 10,530,000
Professional Services	11	\$ 4,955,000	7	\$ 1,048,000
	1,501	\$ 40,530,000	827	\$ 14,345,000
Highways Division				
Small Purchases	1,423	\$ 3,873,000	1,026	\$ 2,875,000
Exemptions	1,010	\$ 4,498,000	642	\$ 2,578,000
Sole Source	23	\$ 1,709,000	29	\$ 803,000
Emergency	9	\$ 4,963,000	18	\$ 5,112,000
Competitive Sealed Bid	116	\$ 203,860,000	56	\$ 195,793,000
Competitive Sealed Proposal	-	\$ -	3	\$ 80,010,000
Professional Services	29	\$ 14,838,000	43	\$ 36,705,000
	2,610	\$ 233,741,000	1,817	\$ 323,876,000
Administration Division				
Small Purchases	147	\$ 1,616,000	253	\$ 1,106,000
Exemptions	7	\$ 32,000	5	\$ 44,000
Sole Source	8	\$ 212,000	8	\$ 276,000
Competitive Sealed Proposal	-	\$ -	2	\$ 292,000
Professional Services	5	\$ 1,897,000	-	\$ -
	167	\$ 3,757,000	268	\$ 1,718,000
TOTALS	5,789	\$ 417,050,000	4,211	\$ 467,291,000

Source: Compiled by Accuity LLP based on information provided by the Department of Transportation

Prior Audits

This is our first department-wide procurement examination of DOT. However, the Office of the Auditor has conducted several audits that addressed procurement in the department and its divisions.

In Report No. 95-29, *Audit of State Contracting for Professional and Technical Services*, Airports was one of three state agencies selected for audit. We found that Airports' internal control structure failed to safeguard public assets and did not ensure competition in the selection process. We also found that Airports failed to adequately plan for and monitor contracted work.

In Report No. 98-9, *Financial Audit of the Highways Division of the Department of Transportation*, we found that Highways failed to comply with procurement laws and regulations in its amendment of a sole source contract to develop and install a comprehensive accounting system. The \$1.5 million amendment was not submitted to the CPO for approval nor posted in a public area.

In Report No. 99-8, *Financial Audit of the Airports Division of the Department of Transportation*, we reported significant deficiencies in Airports' procurement process, including failure to ensure competition in the selection of a contractor for a new multi-million dollar management information system. We also found that one of the contracts may have been improperly procured as a sole source contract; Airports did not properly plan for the contracted work; and contract files for the project were not properly maintained.

In Report No. 00-09, *Management Audit of the Highways Division of the Department of Transportation*, we found procurement violations were a serious recurring problem for Highways, as it continued to award contracts without ensuring adequate competition and ignored procurement record retention requirements. We also found Highways failed to adequately review the work of contractors and avoided the process for change order review and authorization.

Finally, in Report No. 05-05, *Audit of Selected State Agencies' Procurement of Professional Services Contracts*, DOT was one of three departments audited. In all departments, we found a lack of understanding of the process for procuring professional services and little if any oversight or review of processes followed. We also found questionable and untimely professional services procurement practices, including contracts that strongly suggested work began before contract execution and contracts that were executed without a clearly defined scope of services and fee compensation. In DOT's Airports Division, we found inappropriate use of a "short-list" in procuring professional

services; in Harbors, we found large contracts were executed with poorly defined scopes. We recommended departments develop written policies and procedures and work with SPO to develop effective training programs for employees tasked with procurement responsibilities.

Objectives of the Examination

1. Examine the effectiveness of the Department of Transportation's internal controls over the procurement of goods and services.
2. Assess the adequacy, efficiency, and effectiveness of the department's organizational structure, systems, procedures, and practices over the procurement of goods and services.
3. Make recommendations as appropriate.

Scope and Methodology

We examined the procurement of goods and services by the Department of Transportation for the fiscal years ended June 30, 2009, and June 30, 2010. We also considered information from other fiscal years through March 2011 as relevant to our overall objectives. Included in our examination were the department's Airports Division, Harbors Division, Highways Division, and Administration Division.

We procured the services of a certified public accounting firm (Accuity LLP) to conduct the examination. The firm evaluated DOT's procurement organization, policies, procedures, and internal control structure to identify any deficiencies or weaknesses and make recommendations for improvements. The firm also interviewed departmental personnel involved in the procurement process, including those responsible for management and oversight, and observed the department's procurement procedures and activities. In addition, the firm examined relevant forms, records, and transactions for compliance with applicable laws and regulations. The firm tested 60 procurement transactions, including 15 small purchases, five exempt, one sole source, 19 competitive sealed bids, three competitive sealed proposals, and 17 professional services procurements.

Accuity LLP conducted the examination from July 2010 through March 2011 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our work to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the examination objectives.

Auditor's access to information

We encountered difficulties in examining Airports, as responses to our inquiries were routed through the director of transportation and other Airports management personnel before being provided to us. This resulted in delays in communication and in obtaining requested information and documents. In addition, we were instructed that specific inquiries related to contracts should not be directed to the respective project managers responsible for monitoring contracts in Airports' Engineering Section but to the Airports Engineering Program manager. We were informed that this individual had a broader understanding of Airports' projects; however, many responses from Airports did not fully address our questions and required numerous follow-up inquiries, which caused further delays. We did not encounter these difficulties with other DOT divisions.

Auditor's reporting of deficiencies in internal control

During our fieldwork, we identified procurement issues throughout the department; however, noncompliance with the state procurement code was not equally prevalent among divisions. Airports, which accounts for approximately 30 percent of the department's procurement, was responsible for the majority of the department's violations, which were often persistent and serious. Because of Airports' disproportionate number of violations and the large amounts of goods and services procured, we focused our reporting on its material weaknesses, as required by generally accepted government auditing standards.

Chapter 2

DOT–Airports’ Dependence on and Accommodation of Contractors Subverts the Public Interest

The expenditure of public funds comes with an obligation to protect the State’s interests and ensure best value, as well as to foster public confidence in the integrity of the procurement process. Consistent with the intent of the *Hawai’i Public Procurement Code*, state agencies must assure fair and impartial access to government procurement and encourage full and open competition, which should result in economic benefit to the State. However, we found numerous procurement violations and instances of non-compliance throughout the Department of Transportation’s (DOT) divisions. In addition, procurement policies and procedures were not consistent among divisions, and a lack of procurement training and monitoring of compliance were department-wide concerns.

Especially troubling was the pattern of recurring violations and questionable practices we found in the Airports Division (Airports), which in fiscal years 2009 and 2010 accounted for approximately 30 percent of the department’s total procurements of \$417 million of goods and \$467 million of services. This pattern of impropriety—in some cases persisting for several years—demonstrates Airports’ overreliance on contractors, outsourcing significant decisionmaking responsibilities to them while excessively accommodating their needs. Compounding these significant deficiencies was Airports’ inability or unwillingness to properly plan, oversee contracts, and monitor the work performed under those contracts, resulting in excessive delays, increased costs, and numerous procurement violations.

Summary of Findings

We found two material weaknesses involving the department’s internal controls over procurement of goods and services. As defined in *Government Auditing Standards*, a material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that an agency will fail to prevent or detect a material noncompliance with specified requirements.

Material weaknesses

1. Recurring violations and questionable practices demonstrate the Airports Division’s overreliance on contractors and willingness to put contractors’ needs ahead of the public interest.

2. Improved training and oversight department-wide could reduce procurement violations and inconsistencies between divisions.

Airports Has Surrendered Oversight and Management Responsibilities to Its Contractors

Act 8, Special Session Laws of Hawai‘i 1993, which established the State’s procurement code, declares that “it is the policy of the State to ensure fiscal integrity, responsibility, and efficiency in the procurement process.” However, it appears that Airports has not embraced this policy. Airports procured more than \$139 million and \$127 million of goods and services in fiscal years 2009 and 2010—approximately 33 and 27 percent of the DOT’s total procurements for each respective year. Despite such substantial spending, Airports personnel have taken a lax approach to procuring and managing significant contracts, not holding themselves or their contractors accountable for decisions.

For instance, in 2006, Airports hired a consultant to manage its 12-year, \$1.7 billion program to modernize the Honolulu International Airport terminal. According to Airports, hiring a third-party program manager was necessary because the project size and scope were beyond the capabilities of Airports staff. However, we found that Airports has not only outsourced its management functions, it also removed itself from parts of the decisionmaking process, surrendering key oversight and management responsibilities to the program manager and other contracted consultants. This disengagement resulted in questionable allowances to the program manager, such as the provision of rent-free facilities and the reimbursement of office renovation expenses.

Airports Division relies heavily on consultants to manage its \$1.7 billion program, resulting in potential increased cost to the State

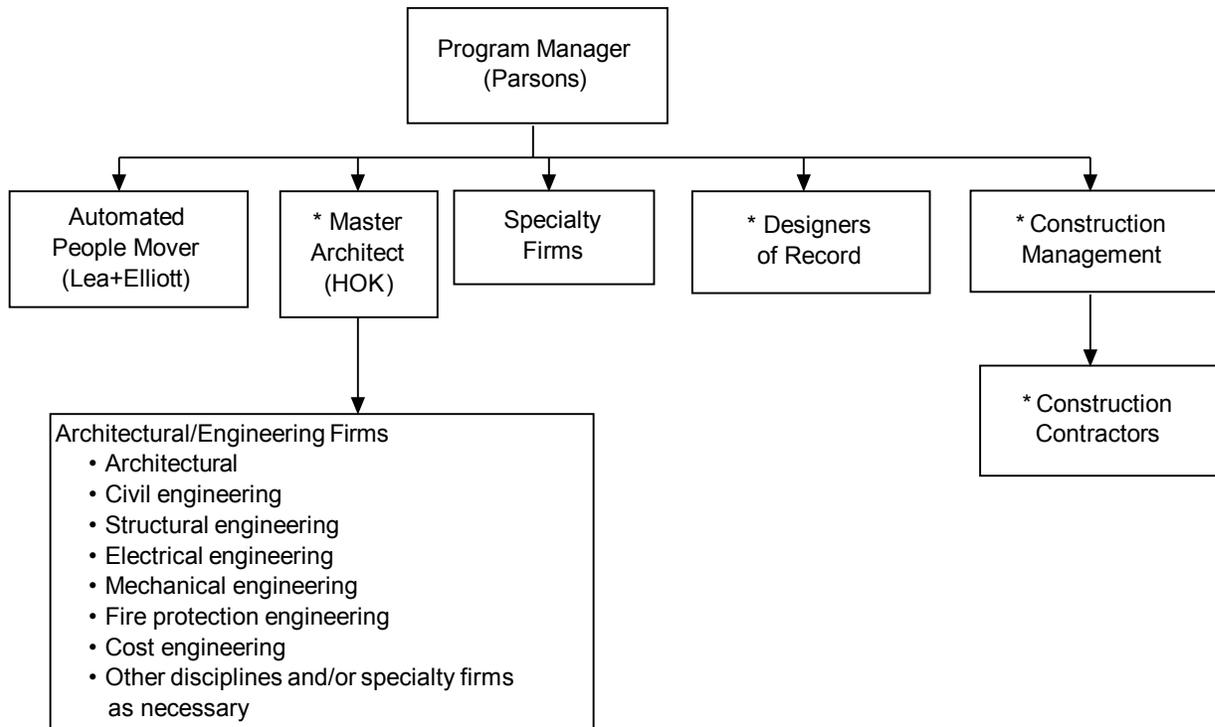
The Terminal Modernization Program (TMP) for the Honolulu International Airport is a 12-year program, from September 1, 2006, to December 31, 2018, with a program budget of \$1.735 billion to modernize Hawai‘i’s main airport. The size and scope of the program, and numerous parties involved, require that the State provide stringent oversight. However, Airports has relinquished the majority of its oversight to a third-party program manager and other construction managers, including negotiation of large contracts under the program. We also noted that the program management contract includes questionable provisions, which raises concerns as to whether the contracts provide the best value to, and are in the best interest of, the State.

Program management contract demands stringent oversight by Airports

Airports executed several layers of contracts to manage the TMP. Exhibit 2.1 illustrates the multiple layers of consultants and contractors,

including the program manager, architectural and engineering firms, construction managers, and construction contractors involved in the TMP.

**Exhibit 2.1
TMP Management Team**



* Denotes firms under separate contract with the State.

Source: Parsons Transportation Group, Inc. contract

At the top of the hierarchy is the program manager—Parsons Transportation Group, Inc. (Parsons). The program manager is responsible for providing program management services for the modernization project that will span 12 years and has a budget of \$1.735 billion. Parsons was awarded the program management contract on August 23, 2006, using the professional services method of procurement. The contract is for \$90 million, which is multi-year funded, subject to the availability of funds. Contract amendments are used to increase the contract amount with each available funding. Initial funding was \$8.4 million; supplemental contracts Nos. 1 and 2, effective June 12, 2008, and May 25, 2010, added appropriations of \$10.7 million and \$18.6 million, respectively. The contract includes funding for an automated people mover consultant (Lea+Elliott, Inc.) and an Airline Liaison Office, which are sub-consultants to Parsons. According to the contract, if the total contract amount is reached before to completion of the airport modernization project, Airports will either 1) request

additional funding, 2) reduce the scope of the program, or 3) terminate the contract.

While not uncommon in the airport industry, outsourcing management functions via a program management contract demands stringent oversight. However, based on interviews with department personnel and reviews of the contract and related project files, it appears Airports may be over-relying on Parsons to manage this large and critical project.

Parsons has been granted significant responsibilities and control

The project management contract requires Parsons to provide all direct labor to perform services identified within the contract. In addition, Parsons oversees the preparation of design development documents by the master architect. Parsons is also permitted to recommend contingencies for design, bidding and price escalation, and to determine what materials, equipment, component systems, and types of construction are to be included in contract documents.

Exhibit 2.2 shows a list of contracts directly overseen by Parsons as of October 31, 2010.

**Exhibit 2.2
TMP Contracts Overseen by Parsons**

<u>Role: Contractor</u>	<u>Contract No.</u>	<u>Amount</u>
Program Manager: Parsons Transportation Group, Inc.	#55840	\$ 90,000,000
Automated People Mover Consultant: Leah+Elliot	#55840	-
Master architect: Hellmuth Obata + Kassabaum, Inc.	#55905	\$ 85,000,000
Designer of record: Bowers + Kubota Consulting	#59064	\$ 1,330,000
Designer of record: KYA Design Group	#59466	\$ 6,147,451
Designer of record: dck Pacific Corporation	#59463	\$ 5,814,000
Designer of record & general contractor: dck Pacific Corporation	#59663	\$ 73,432,000
Designer of record & general contractor: Kiewit Pacific Co.	#57479	\$ 24,525,000
Construction manager: Wesley R. Segawa and Assoc.	#59358	\$ 280,000
Construction manager: Wesley R. Segawa and Assoc.	#59449	\$ 4,000,000
Construction manager: M&E Pacific, Inc.	#57558	\$ 976,500
Construction manager: Bowers + Kubota Consulting	#59864	\$ 1,919,000
General contractor: Nordic PCL	#59417	\$ 1,378,605
TOTAL		\$ 294,802,556

Source: Department of Transportation, Airports Division

Airports appears removed from the actual construction projects taking place. Although Airports personnel stay abreast of program developments through regular team meetings, Airports personnel rely on multiple layers of consultants and contractors to monitor each other and the program on a daily basis. With strict oversight and control, the

program setup could work; however, we found that Airports’ indirect involvement may provide Parsons with too much authority, potentially increasing both risk and cost to the State.

Airports is not directly involved in negotiating large project contracts

Airports is not directly involved in negotiating contracts for larger project, as a program manager is typically procured to act as an agent on behalf of the contracting entity (Airports). Airports has indicated that there is oversight by its own project manager; however, evidence of this oversight was minimal or inconsistent.

We judgmentally selected and reviewed the following contracts, noting that the negotiation for each was performed by Parsons, the consultant program manager:

- #59064 Bowers and Kubota Consulting, April 1, 2010—DOR/HNL TMP Commuter Phase 1-3;
- #59466 KYA Design Group, July 7, 2010—DOR/HNL TMP Mauka Ext Site Prep; and
- #57479 Kiewit Pacific Co., August 8, 2008—DOR/IM Facility Site Prep.

We found that Airports personnel provided varying levels of evidence indicating general oversight for these contracts, but there was no documentation in project files that indicated Airports personnel were involved in the actual negotiation of contract amounts. Airports personnel were generally limited to reviewing multipliers (overhead and profit) and proposed amounts for completeness and accuracy. Airports stated that it relies on the consultant program manager/construction manager to negotiate the base (pre-multiplier) cost.

On smaller projects, we found that Airports personnel are normally directly involved. However, for larger projects, Airports only reviews labor rates, overhead, and profit factors for contractors, which are proprietary and include sensitive information. Meanwhile contracted program or construction managers negotiate the hours of effort. This is Airports’ standard approach for larger projects, since management determined that contractors have more experience and staff available to manage larger projects.

This system appears inconsistent with Airports’ policies. The Airports *Construction Management Procedures Manual* clearly states that a state project manager “oversees and is involved in all aspects of the project”

and “has approval and disapproval authority on any and all decisions made by consultant CMs [construction managers].” The construction manual adds that a state project manager “may be *assisted* by consultant project management support personnel on large programs” (emphasis added). However, the consultant project manager Parsons is doing more than assisting the State; Parsons is taking the lead in negotiating large contracts and other changes to existing contracts. This situation, combined with unclear or inconsistent levels of involvement by Airports personnel, means the interests of the State may not be a priority.

Airports acknowledges violation of procurement code with contract that includes questionable provisions and costs

We also found problems with the procurement of the program management contract, as even the State Procurement Office communicated several concerns to the department. The contract also contains several questionable provisions, such as providing Parsons with office space for the duration of the 12-year project at no charge while allowing Parsons to charge the maximum allowable labor multiplier; providing for all costs to set up the office space; and further reimbursing Parsons for significant renovations of the office space—a clear violation of procurement laws for professional services contracts. Costs incurred by Parsons and ultimately paid by the State also raised concerns.

Parsons contract provides for free rent and reimbursement of office direct costs

In addition to a suspect procurement process, the executed contract with Parsons contained many questionable provisions. According to the contractors initial terms, the State provided office space to Parsons at no charge by issuing revocable permits for use of Airports’ property at Ualena Street near the Honolulu International Airport. In addition to free rent, Airports reimbursed Parsons for all costs incurred to set up, hardwire, and furnish the office space; procure and install necessary software; and hire consultants to train itself.

Moreover, the program management contract with Parsons also provides a \$500,000 allowance for *office direct costs*, which is capped at \$1 million over the life of the project. Office direct costs are meant to be reimbursements for one-time project office set-up costs. However, the contract incorporates Parsons’ detailed estimate of its one-time costs as well as estimated recurring costs, as shown in Exhibit 2.3.

Exhibit 2.3**Parsons’ Detailed Estimate of Office Direct Costs**

Description	Set-up cost	Recurring costs				Total costs
		Year 1	Year 2	Year 3	Year 4	
PM office IT setup	\$ 76,677	\$ 19,875	\$ 26,076	\$ 26,076	\$ 26,076	\$ 174,780
Program controls system	\$ 179,450	\$ 28,881	\$ 6,788	\$ 25,348	-	\$ 270,467
Office furniture & equipment	\$ 25,000	-	-	-	-	\$ 25,000
Totals	\$ 281,127	\$ 48,756	\$ 62,864	\$ 51,424	\$ 26,076	\$ 470,247

Source: Airports Division, Parsons project files

PM office IT setup costs of \$76,677 are to setup the state-provided office space that Parsons will occupy during the course of the contract, including installation of a telephone system and wireless network; computer servers, hard drives, monitors, and software; and printers and workstations equipped with dual 20” LCD monitors. *Program controls system* costs of \$179,450 include the cost to purchase, configure, and rollout the project management software and related tools. This includes \$37,335 for travel and labor (including preparation and transit time) related to providing system training to Parsons’ own staff, as well as any other staff identified by the state project manager. It is of particular concern that the contract stipulates, “the proposed Project Controls System will be implemented on the Parsons-owned Enterprise Wide Hardware solution located at the Plano Texas Technology Center.” The contract also provides \$25,000 for *office furniture & equipment* for eight people, including two LCD projectors, a digital camera, and an electronic whiteboard.

Parsons’ use of labor multiplier increased the amount charged to Airports

Despite the State providing rent-free office space to Parsons for its staff, the contract allowed Parsons to apply a maximum labor multiplier of 2.88, the highest allowed under the department’s policy at the time the contract was executed in April 2007. The multiplier represents the rate Parsons can apply to its direct labor costs before billing the State, reflecting contractor overhead and profit.

Exhibit 2.4, which is a copy of Parsons’ invoice for the month of October 2010, illustrates that the 2.88 labor multiplier significantly increased the amount paid to Parsons for labor.

**Exhibit 2.4
Parsons’ Labor Report, October 2010**

Parsons Labor - October 2010

* see note below

Core Staff							
PRISM NUMBER	EMPLOYEE NAME	TITLE	TASK DETAIL	EMPLOYEE NUMBER	RATE	TOTAL HOURS	BILLED TO CLIENT
1011179		Project Manager	Program Management Core Staff		\$ 53.40	112.0	\$ 5,980.80
1011179		Document Control Specialist	Program Management Core Staff		\$ 35.00	195.5	\$ 6,842.50
1011179		Program Communications Manager	Program Management Core Staff		\$ 37.68	196.0	\$ 7,385.28
1011179		Environmental Project Manager	Program Management Core Staff		\$ 57.65	47.0	\$ 2,709.55
1011179		Program Manager	Program Management Core Staff		\$ 94.24	196.0	\$ 18,471.04
1011179		Project Controls Manager	Program Management Core Staff		\$ 79.32	200.0	\$ 15,864.00
1011179		Project Controls Cost Engineer	Program Management Core Staff		\$ 40.36	176.0	\$ 7,103.36
1011179		Project Manager	Program Management Core Staff		\$ 52.93	200.0	\$ 10,586.00
1011179		Office Administration	Program Management Core Staff		\$ 23.24	198.0	\$ 4,601.52
1011179		Project Manager	Program Management Core Staff		\$ 80.09	179.0	\$ 14,336.11
1011179		Project Controls/Document Control	Program Management Core Staff		\$ 25.47	188.0	\$ 4,788.36
SUBTOTAL CORE STAFF						1887.5	\$ 98,668.52
Non Core Support Staff							
PRISM NUMBER	EMPLOYEE NAME	TITLE	TASK DETAIL	EMPLOYEE NUMBER	RATE	TOTAL HOURS	BILLED TO CLIENT
1011179		Chief Estimator	Estimating, Commuter Facilities Drive-Through (AO1150-03)		\$ 57.69	40.0	\$ 2,307.60
1011179		Estimator	Estimating, Aloha Air Cargo/Elliott St. Demolition (AD1125-17)		\$ 64.38	4.0	\$ 257.52
						8.0	\$ 538.48
						83.0	\$ 5,395.00
						90.0	\$ 8,068.50
						225.0	\$ 16,567.10

PARSONS TRANSPORTATION GROUP INC.
100 M STREET, SE
WASHINGTON, DC 20003

INVOICE

December 01, 2010

CLIENT REF. : AO1030-13
INVOICE NO. : 23
PROJECT NO. : 646754
CLIENT NO. : 64971

PLEASE REMIT TO:
PARSONS TRANSPORTATION GROUP INC.
P.O. BOX 601068
LOS ANGELES, CA 90060-1068

TO: STATE OF HAWAII
DOT AIRPORTS DIVISION
400 RODGERS BLVD., SUITE 700
HONOLULU, HAWAII 96819-1880
ATTN: GUY ICHINOTSUBO

FOR: HI-HNL TERMINAL MODERNIZATION PM SVCS

TASK ORDER 007 (JUL TO DEC 2010)

	CURRENT PERIOD THROUGH 10/31/10	CUMULATIVE-TO-DATE THROUGH 10/31/10
Salaries		
Labor (Lump Sum)	331,878.59	12,215,696.03
LABOR SUBTOTAL:	331,878.59	12,215,696.03
Lump Sum Costs		
Normal Reimbursable Costs	687.99	197,861.53
Reimbursable Costs		
Project Reimbursable Costs	0.00	803,812.25
Office Direct Costs	0.00	278,145.05
Office Furniture Lease	839.39	26,860.48
SUBTOTAL EXPENSES:	1,527.38	1,306,679.31
Additional Services		
Additional Services	0.00	0.00
Hawaii State Excise Tax Total		
Hawaii State Excise Tax (4.712%) (Total)	15,710.09	631,385.28
Subconsultants		
Subconsultants	316,769.64	14,036,476.18
TOTAL THIS INVOICE:	665,895.70	28,190,236.80

Total Labor	\$ 115,235.62
MULTIPLIER	2.88
TOTAL	\$ 331,878.59
TAX (4.712%)	\$ 15,638.12
GRAND TOTAL	\$ 347,516.71

Source: Airports Division, Parsons project files

Although Parsons’ total direct labor cost for October 2010 was approximately \$115,000, the 2.88 multiplier increased the amount charged to Airports by approximately \$217,000, to approximately \$332,000. In addition to providing Parsons with the highest allowable labor multiplier, Airports also prohibited itself from reviewing the application or appropriateness of the multiplier. Parsons’ contract specifically states that “the overhead calculation will not be subject to a [sic] audit/review,” this is not the typical language included in other Airports’ contract to retain the option to review and audit an overhead calculation. This provision was particularly troubling especially given the significant increase in amounts paid to Parsons as a result of the multiplier.

Airports reimbursed Parsons \$570,000 for renovation costs

We also found the program management contact inappropriately included a provision for Parsons to provide construction services. Airports determined that the space initially intended to be provided to Parsons was insufficient and that Parsons would therefore be provided alternate space at another state-owned property on Ualena Street near the Honolulu International Airport. The new space required renovation prior to move-in, and the former deputy director of Airports authorized Parsons to perform renovations of the property’s third floor, as the contract provided that “the State will reimburse Parsons for improvements or modifications to the space(s) associated with the initial move in.” Airports and Parsons later determined that the second floor of the property should also be renovated and other improvements made. Ultimately, Parsons was reimbursed a total of \$570,623 for renovations. At the time of our fieldwork, Parsons occupied the third floor of the Ualena Street property, as shown in Exhibit 2.5, while the second floor, which was intended to be occupied by state personnel working on the airport modernization project, was vacant.

Exhibit 2.5
Office Space Occupied by Parsons, 3rd Floor Ualena Street



Central space used for training sessions.



Consultant meeting room.



Individual office.

Source: Office of the Auditor

The former deputy director of Airports and former director of transportation both believed the contract with Parsons allowed for such an amendment. However, the contract itself violated procurement laws by including provisions for Parsons to perform the renovations. The contract was advertised and awarded to provide *professional services*, not *construction services*. In its October 7, 2010, letter to the department, the State Procurement Office specifically stated:

The contract with PARSONS for professional services is in violation of HRS §103D-304, in that the portion of the contract in which construction work was provided for the ‘improvements or modifications’ to the Ualena Street property was inappropriate and a misuse of the professional services procurement process.

Airports thus violated the *Hawai‘i Public Procurement Code* by authorizing Parsons to complete the renovation project, which should have been separately procured through competitive means. The State

cannot provide assurance that the renovation project was performed at the best possible price. In July 2010, the former director of transportation and former deputy director of Airports addressed the Legislature and defended their decision to authorize Parsons to perform the renovation. However, Airports subsequently acknowledged the violation by completing SPO Form 16 *Procurement Violation* in February 2011, four months after the SPO letter addressing this issue.

The SPO’s October 7, 2010, letter also noted that the Parsons contract did not provide Airports with guidelines for reviewing the appropriateness of Parsons’ costs. The SPO highlighted that “the contract does not specify how the DOT determines what is appropriate and or [sic] allowable costs for these sub-consultants.”

According to the Parsons contract, task order proposals are submitted by Parsons to Airports for each phase under the modernization project. Task order proposals should be approved by Airports before Parsons proceeding with any work. However, under the State’s contract with the master architect, we noted an instance in which proposals for project task orders (phases) were reviewed and approved jointly by Parsons and Airports, but the final approval letter to the master architect was signed by Parsons and copied to Airports, rather than approved directly by Airports. Although the master architect is under the direct supervision of Parsons, its contract is with Airports. Therefore, Airports should approve any task orders on the master architect’s contract and any other direct contracts.

Potentially unnecessary or excessive expenses were approved, but Airports lacked documentary support

Although DOT personnel are responsible for reviewing task order proposals and invoices submitted by Parsons, we did not find evidence of detailed reviews or supporting documents provided by the consultant program manager in the project files. In fact, we had difficulty locating support for randomly selected expenses and noted inconsistencies in the consultant’s reports. Airports personnel were only able to provide limited assistance in locating support, even after consulting with Parsons. Further, we identified the following noteworthy expenses in Parsons’ contract files, totaling at least \$1,273,720:

- **Cultural advisor (\$21,990).** Project reimbursable expense for a “cultural advisor” included \$11,000 for travel expenses;
- **Team-building training (\$21,000).** A sub-consultant was paid \$21,000 to provide “team building” training for Parsons’ staff. Other contractors’ staff and Airports personnel were also in attendance. According to a related invoice and interviews

with Airports personnel, training was provided on at least three separate days at a rate of \$4,000 to \$5,000 per day, plus travel and per diem. The cost of the training dramatically increased when direct labor (plus multiplier) was added for each contractor in attendance; however, we could not calculate the true cost to the State because Airports and Parsons were unable to provide labor reports detailing how much each attending consultant was compensated for the relevant date of training;

- **Architectural consultant (\$354,730).** An architectural consultant from Texas was flown in to provide peer review services throughout the project. Although we were unable to calculate the total amount paid to the consultant, Parsons provided an invoice detail summary showing compensation of \$354,730 over a one-year period. We were able to locate one related invoice in the project files, which showed the single architectural consultant typically spent one to two weeks per month in Honolulu at a rate of \$9,000 per week, plus travel and per diem ranging from \$2,800 to \$3,600 per visit; and
- **Project cost and document control sub-consultant (\$876,000).** Another sub-consultant, providing “project cost and document control” services, was flown in from the U.S. mainland and paid approximately \$22,900 for labor and \$6,800 for living expenses (including \$2,230 to \$2,660 for a Waikiki condo minimum rental) each month over a 16-month period. The sub-consultant subsequently relocated to Honolulu to provide long-term project support and was paid approximately \$22,200 per month over an additional 18-month period. In total, the sub-consultant was paid \$876,000 from April 2008 to January 2011.

Exhibit 2.6 shows these noteworthy expenses in Parsons’ contract files.

Exhibit 2.6
Noteworthy Expenses by Parsons and Approved by Airports Division

Purpose	Expense	Notes
Cultural advisor	\$21,990	\$11,000 in travel expenses
Team-building training	\$21,000	\$4,000–\$5,000 per day, plus travel and per diem
Texas-based architectural consultant	\$354,730	\$9,000 per week plus travel and per diem ranging from \$2,800 to \$3,600 per visit
Project cost and document control services sub-consultant	\$876,000	April 2008 to January 2011
TOTAL		
	\$1,273,720	

Source: Airports Division, Parsons project files

While Airports personnel provided justification for these services, some appear unnecessary or excessive. For example, if the State is paying Parsons for its project management expertise, the State should not also provide Parsons with “team building” training at a cost of \$5,000 per day. With such a large and impactful project as TMP, Airports should take steps to ensure that program and construction management contracts are properly procured and contain reasonable costs.

Airports Is Unable or Unwilling to Plan for and Provide Proper Oversight of Contracts It Manages Directly

Airports’ procurement missteps and lax attitude have not been limited to the airport modernization project. We found that Airports is unwilling or unable to properly administer and manage contracts it oversees directly. Again, we found a persistent overreliance on and accommodation of contractors, which often resulted in cost over-runs, time delays, and procurement violations. For instance, Airports did not procure a new security contract in a timely manner, allowing the original contract to be extended three times and exceeding the contract term limit by 16 months, at a total cost of \$37.7 million. In addition, Airports failed to do cost analyses for the construction of field offices for projects at the Hilo, Lihū‘e, and Kahului airports. The eventual amount paid for the construction of an individual field office was nearly \$1 million, almost 30 times what it should have cost based on our analysis.

Airports’ failure to timely procure a new contract resulted in \$38 million in additional costs

Airports has two security services contracts with Securitas Security Services USA, Inc. (Securitas), which were procured through competitive sealed bids. Although the contracts are open-ended and have no maximum cap, Airports estimates annual security costs based primarily on prior year expenditures. Further, the division does not have formal procedures for assessing the reasonableness of actual security costs incurred. In addition, monitoring by various districts is inconsistent and minimal. Because of its poor planning and monitoring of security contracts, Airports did not timely procure a new contract and one of its original contracts was extended three times, 16 months past the contract term limit at a total additional cost of \$37.7 million. Added costs were based on actual costs incurred throughout the contract and included a percentage increase, at Securitas’ request. Moreover, a number of procurement violations occurred under both security contracts; the total cost resulting from the violations was undetermined at the time of our fieldwork.

The first of the three contracts was to provide security services for O‘ahu and Hawai‘i districts. The initial three-year contract began on October 18, 2004, and included an option to extend for two one-year periods, with the total term not to exceed five years. In response to the same bid invitation, Wackenhut of Hawai‘i was awarded a security contract for

Maui and Kaua‘i districts. When that contract ended, however, Airports elected not to extend the contract and instead issued an invitation for bids to provide security services for Maui and Kaua‘i. This second contract was awarded to Securitas for a period of two years, commencing February 15, 2008, with an option to extend for three one-year periods, the total term not to exceed five years. Both Securitas contracts contained a provision entitled “Contract To Be Open-Ended,” which states that services shall be furnished on an “as needed” basis at the unit price bid.

Security cost estimates are based on limited analysis

Airports provided the estimated annual hours for each security position, and sought bidders provided the unit prices and totals for each position in their bids. While unit prices are binding, the number of hours for each security position varies depending on circumstances, such as changes in local or national threat levels that result in an increase or decrease to security needs. In its 2003 Notice to Bidders, Airports also included an estimated amount of annual security services required by district, as shown in Exhibit 2.7 (such estimates were not included in the 2007 bid notice).

**Exhibit 2.7
Estimate of Annual Security Expenses in 2003 Notice to Bidders**

District	Estimate
O‘ahu	\$ 12,000,000
Hawai‘i	\$ 5,000,000
Maui	\$ 5,000,000
Kaua‘i	\$ 2,000,000
Total annual estimate	\$ 24,000,000

Source: Airports Division, Securitas project files

According to the Airports administrative services officer (ASO), who acknowledged bearing overall responsibility for the security contracts, the estimated amounts provided in the Notice to Bidders were based on actual security costs from the preceding year (2002). However, Airports could not provide documentation or support as to how these initial estimates were determined.

We found that Airports does not have formal or centralized procedures for estimating security needs and costs. The ASO stated that each airport district manager is responsible for estimating his or her airport’s annual security needs and costs. Estimates are generally based on prior year security costs, taking into account any other adjustments (e.g., price escalations). However, Airports could not provide documentation or support for how any of the districts’ annual estimates were calculated.

No formal procedures for monitoring are in place

Likewise, while there is no maximum cap on the security contract, Airports does not have formal or centralized procedures for monitoring and assessing the reasonableness of regular or overtime hours incurred, such as by performing a regular (i.e., monthly or quarterly) budget-to-actual analyses to identify and evaluate the reasons for any large or unexpected overages. The ASO stated that airport district managers should be monitoring to ensure their districts’ actual expenditures are reasonable and do not exceed budget. However, we found the monitoring practices followed by each district were generally informal and vastly inconsistent between districts. While some districts provided detailed explanations and documentation of the monthly monitoring procedures they perform, other districts indicated they do minimal to no monitoring of monthly security charges.

Coupled with Airports’ casual method of budgeting annual security needs based primarily on prior-year expenses, Airports informal monitoring of actual security costs raises concerns as to the value the State is receiving under these security contracts. We noted that Airports’ actual security costs, including encumbrances, for fiscal years 2009 and 2010 were \$35.7 million and \$37.8 million, respectively—approximately 49 and 57 percent higher than the \$24 million estimated in Airports’ September 2003 Notice to Bidders. Exhibit 2.8 details Airports’ actual security costs for fiscal years 2009 and 2010.

Exhibit 2.8

Airports Division Security Expenses, FY2009 and FY2010 (rounded to nearest thousand)

Airport	FY2009	FY2010
Honolulu International Airport	\$ 20,279,000	\$ 20,725,000
General Aviation	\$ 686,000	\$ 743,000
Hilo Airport	\$ 3,545,000	\$ 3,191,000
Kona International Airport	\$ 3,167,000	\$ 4,382,000
Waimea-Kohala Airport	\$ 112,000	\$ 130,000
Kahului Airport	\$ 4,669,000	\$ 4,540,000
Kapalua Airport	\$ 207,000	\$ 214,000
Moloka'i Airport	\$ 293,000	\$ 297,000
Lāna'i Airport	\$ 277,000	\$ 279,000
Lihu'e Airport	\$ 2,510,000	\$ 3,303,000
TOTAL	\$ 35,745,000	\$ 37,804,000

Source: Airports Division

According to the ASO, a program budget analyst in the Staff Services Office, Budget Section, does perform a quarterly review of each district’s security expenses to determine whether there are sufficient funds to support the expenses. When overages occur, the budget analyst notifies

the respective airport to complete a staff study to identify and transfer a source of funding to make up the deficit. We noted that actual security expenses exceeded budget at two airports in FY2010; however, although actual expenses at Lihū‘e Airport exceeded budget by more than \$600,000 (22 percent), a staff study was performed for only the Kona Airport.

Untimely contract renewal resulted in additional \$37.7 million to the State

In addition, Airports extended its security contract for the O‘ahu and Hawai‘i districts three times in order to cover the State’s needs with minimal analysis for determining added time and costs. This made it more difficult to ensure the State is receiving the best value. The contract was extended through February 14, 2011—thus exceeding the term limit set forth in the contract by 16 months—at a total additional cost of \$37.7 million. The extensions appear to be the result of poor planning and monitoring of the contract by the division.

A new contract was subsequently executed with Securitas on November 15, 2010. One bidder filed a protest of the award but did not pursue it further after the department denied the protest.

Bundled procurement limited competitive bidding and may have resulted in gross overpayment for field offices

We found that Airports entered into separate competitive sealed bid contracts for three projects at the Hilo International Airport, Lihū‘e Airport, and Kahului Airport, each of which included specifications for the construction of pre-engineered structures to be used as field offices. Because the field offices were meant to be used for multiple projects, Airports should have separately procured their construction rather than bundling them with the large construction projects. Separate procurement of the field offices would have encouraged competition and likely resulted in lower bids by other vendors. Further, Airports could not provide us with any cost analyses for constructing pre-engineered structures versus buying or renting trailers, thus raising additional questions as to the economic benefit of constructing new field offices. Ultimately, Airports paid \$182,518 for Hilo’s field office; \$125,000 for Lihū‘e’s office; and \$973,586 for Kahului’s office, totaling nearly \$1.3 million.

The first contract was for a terminal roof replacement at Hilo International Airport, which was awarded to Isemoto Contracting Company, Ltd., in May 2002. The total contract amount was \$10.9 million, of which \$182,518 was listed as the cost of constructing a field office. The second contract was for heliport improvements

at Lihū‘e Airport and awarded to Miller/Watts Constructors, Inc., in March 2006, for \$7.8 million. The bid listed \$125,000 for constructing a field office. Specifications for both contracts stated that “[t]he pre-engineered structure shall be a single-story, field office with conference room, toilet, and sink counter, approximately 1,056 square feet (24’ x 44’),” and identified a specific kit home model as acceptable without further approval—the “Huaka Gable” model by HPM Building Supply.

The third contract was for Phase II of explosive device system integration improvements at Kahului Airport, which was awarded to Bodell Construction Company in April 2008 for \$24.7 million. The bid included multiple line items related to a “new construction management office” totaling \$820,419. That contract’s specifications similarly stated the necessary dimensions and requirements for a pre-engineered structure and named the “Lauhala” kit home model by HPM Building Supply as acceptable.

According to the Airports Engineering Program manager, the decision to construct new field offices and bundle their construction with each of the three projects was based on the recommendation of the project manager for each project. The manager claimed that Airports initially performed a cost analysis in 2002 when it developed the project scope and specifications for the Hilo project, and determined it was preferable to build a pre-engineered structure rather than rent a modular trailer office. However, management was unable to provide this cost analysis and could only provide a document from HPM Building Supply setting forth its packaged home prices as of February 2002, which included the Huaka Gable model. Airports personnel also stated they had obtained quotes from Hawai‘i Modular Space for various trailer configurations and compared them to the packaged home prices. However, they could not provide any documentation of the quotes received or the comparison performed. The Engineering Program manager further stated that cost analyses were not done for the Lihū‘e and Kahului projects. Instead, Airports relied on the information it obtained for the Hilo field office in 2002, and only made telephone inquiries at the time of the Lihū‘e and Kahului projects to verify the costs.

According to the Engineering Program manager, Airports always intended to use the pre-engineered structures as field offices by various consultants performing construction management services over the 20- to 30-year lives of the structures, not just for the specific projects under which they were built. The manager indicated that Airports found this approach to be most cost-effective in providing facilities for construction management personnel, as the average cost for an approximately 1,400 square-foot kit home is \$180,000, while the cost to buy a similar-sized trailer is \$178,000 and the cost to rent a similar-sized trailer or modular office for 20 years at \$3,100 per month would be \$744,000. He did not,

however, provide any support or documentation for these figures. In October 2010, we obtained independent quotes from Hawai‘i Modular Space and projected the costs to lease or own a trailer. As shown in Exhibit 2.9, the estimated 20-year cost to lease a mobile office was between \$206,809 and \$266,513, depending on size. The purchase price for those same mobile offices was \$25,000–\$39,000 for a used trailer, and \$32,895–\$45,095 for a new one, again depending on size.

**Exhibit 2.9
Estimated Costs to Lease or Purchase Trailers**

<u>Lease - Mobile Office</u>	<u>36' x 10'</u>	<u>48' x 12'</u>
Monthly charge	\$ 850	\$ 1,095
Annual charge	\$ 10,200	\$ 13,140
20 year charge	\$ 204,000	\$ 262,800
+ Initial charge	\$ 2,283	\$ 3,016
+ Final charge	\$ 526	\$ 697
= Total 20-year charge	\$ 206,809	\$ 266,513
<u>Purchase - Trailer</u>	<u>32' x 10'</u>	<u>44' x 12'</u>
New	\$ 32,895	\$ 45,095
Used	\$ 25,000 - 28,000	\$36,000 - 39,000

Source: Accuity LLP

The Engineering Program manager indicated that a similar-sized trailer with its rectangular shape does not function as well as a kit home in providing space for an administrative assistant, engineer, and meeting/conference room; thus, Airports would need to buy or rent two or more trailers to provide the same functionality as a kit home. However, when we performed a site visit to the Kahului field office in October 2010 and met with one of the project’s construction managers, he mentioned that only three or four employees intermittently use the office for operational planning and other contract work. It thus appears excessive that Airports constructed a 1,764 total square foot kit home for intermittent use by a few individuals. Photographs of the Kahului field office are depicted in Exhibit 2.10.

The Engineering Program manager also noted that Airports chose kit homes because trailers do not meet county building codes and fire exit requirements, which was referenced in a May 25, 2000, memorandum from the then-Airports administrator. However, the memorandum referred to tenants leasing space for long-term use from Airports rather

than to temporary offices used for construction projects. Further, the manager could not cite specific provisions in the codes prohibiting the use of trailers as field offices.

Exhibit 2.10
Kahului Field Office



Source: Accuity LLP

In addition, the Engineering Program manager indicated that because contracts for the larger construction projects were awarded via competitive sealed bid, this approach provided assurance that the amounts bid for the pre-engineered structures were competitive. However, the costs related to the construction field offices were a small percentage of the total bids for the three multi-million dollar projects we reviewed, representing only 1.7 percent (Hilo), 1.6 percent (Lihū‘e), and 3.3 percent (Kahului) of total costs for each project. Moreover, Airports personnel indicated that because the contract prices were based on competitive bids, personnel only assessed the reasonableness of total project billings before making payment rather than reviewing individual line items.

Further, we found that \$973,586 was billed to Airports for construction of the Kahului field office, which was \$ 153,167 higher than the \$820,419 total of various line item costs related to the office per the winning contractor’s bid.

Allowances afforded to certain contractors resulted in project delays and increased costs

We found that Airports has taken a lax approach to procuring and overseeing other significant contracts, appearing at times to be accommodating certain contractors rather than ensuring the best interests of the State. For example, even though a \$1.5 million project to install an automated vehicle identification system at Honolulu International Airport was significantly delayed, Airports did not actively move the project forward for at least three years, then allowed the contractor numerous extensions over the next three years. Moreover, Airports did not seek suspension or debarment of the contractor. Instead, the department awarded the contractor an additional \$7.9 million in contracts over the six-year period, and Airports continued to use the contractor for emergency electrical work at the airport.

We also found that Airports executed two agreements via “direct negotiations” with one vendor to manage taxi and parking concessions at the Honolulu airport, then allowed that vendor to continue operating the concessions without a formal agreement for a number of years. Such actions and decisions by Airports have not only caused delays and increased costs, but also diminished fair and open competition in the procurement process.

Deficient contract monitoring led to extensive delays in completing the vehicle identification system

In June 2000, Airports entered into a \$1,495,000 contract with Ted’s Wiring Service (Ted’s) for the installation and maintenance of an automated vehicle identification (AVI) system for monitoring taxi activity and fees at Honolulu International Airport. Installation of the system was delayed more than six years beyond the contracted completion date of August 2003. In response to our inquiries, Airports could provide only limited information and documents to explain what occurred throughout the project, with no evidence of any activity during certain periods of the project’s life. Based on the available evidence, however, we found that Airports’ failure to properly monitor and take action against Ted’s hindered the project’s completion. Airports did not take meaningful action to compel progress by Ted’s until at least September 2006, and granted Ted’s several extensions from September 2006 through April 2009, none of which were met. The system was finally implemented in February 2010 under a performance bond surety. Due to Airports’ failure to take action against Ted’s, including seeking suspension or debarment, the department awarded Ted’s an

additional \$7.9 million in contracts between 2004 and 2010. Airports also continues to utilize Ted’s to perform emergency electrical work unrelated to the AVI project. Thus, it is unclear whether management’s decisions were made in the best interest of the State or to accommodate the contractor.

The AVI system’s intended purpose is to move away from the labor-intensive “honor” system, where fees paid to Airports by commercial operators (e.g., taxis) are based on a percentage of self-reported gross receipts. Because the AVI system has the capability to automatically track each operator’s activity, such as trips made and dwell times, it is expected to prevent underreporting of fees that could be occurring under the current system. Ted’s proposal included financial justification for the AVI system, claiming expected net financial benefits over the life of the system and providing a range of estimates for different scenarios. Exhibit 2.11 shows Ted’s proposed estimates for the expected increase in revenues to be generated from the AVI system and the State’s payback period.

Exhibit 2.11
Ted’s Wiring Service Proposal, Additional Revenue Estimate

	Low	Medium	High
Estimated increase in annual revenue	\$3,097,002	\$5,056,147	\$5,291,244
Project cost	\$1,482,737	\$1,482,737	\$1,482,737
Payback period	0.48 years	0.29 years	0.28 years

Source: Airports Division, Ted’s Wiring Service project files

We found no evidence that Airports performed an independent analysis of the AVI system to assess the cost-benefit of implementing the system or determine the accuracy or reasonableness of Ted’s estimates.

As the prime contractor, Ted’s was responsible for assembling a project team to implement the AVI system, which was comprised of a: 1) design team, 2) construction team, and 3) AVI project team (responsible for providing the system’s hardware and software). These teams were staffed by subcontractors to Ted’s.

Decisions by Airports and contractor significantly impeded project completion

The planned timeline for the contract with Ted’s was eight months for the design, installation, and testing of the system, and two years to operate and maintain the system. The “Notice to Proceed” to design and build the system was effective December 15, 2000; accordingly, Ted’s was contractually required to implement the system by August 13, 2003. However, we found this phase of the project continued more than six years past that date and was finally completed and accepted in February

2010 under a performance bond surety.

While it appears from the limited evidence Airports provided that numerous factors contributed to the long delay, the most extensive holdup related to problems properly installing and operating the system. Ted’s blamed its hardware subcontractor, XCI, Inc., for providing equipment that did not work properly, while XCI claimed Ted’s had not installed the equipment properly. The dispute continued until XCI eventually went out of business in 2008, causing Ted’s to contract with another company in 2009 for the AVI software that was eventually installed.

Airports personnel, including the then-O‘ahu district manager, who had primary oversight of Ted’s contract, also cited “continuing problems” with XCI as the project’s main setback, despite Ted’s “good faith effort.” However, our review of the project files found that decisions and inaction by Ted’s as well as Airports also significantly impeded completion of the project.

The dispute between Ted’s and XCI regarding the AVI system specifications arose around July 2003. In August 2003, Airports notified Ted’s that it accepted XCI’s recommended system specifications and asked Ted’s to provide a timeline for installation. The parties agreed to a revised timeline under which installation would be completed on January 2, 2004. Although Airports could not specify the reasons for delays during that time between July 2003 to August 2004, Airports sent numerous correspondence to Ted’s following up on the status of the installation and expressing concern with Ted’s responsiveness.

Based on the evidence provided by Airports, it is unclear what occurred between August 2004 and early 2006. From January to May 2006, the dispute between Ted’s and XCI continued until XCI proposed a meeting between the three parties to discuss a resolution of the ongoing issues. Following a meeting in June 2006, Ted’s and XCI agreed to work together to complete the installation of the AVI system; however, the conflict continued. Although the contract’s project completion date was August 2003, there was no evidence of an agreement or even discussion between the parties to extend the contract until at least September 2006.

Despite contractor’s inability to perform on AVI system contract, Airports continued to award it other contracts

In September 2006, Airports sent a letter to Ted’s stating that it would begin assessing liquidated damages if Ted’s failed to complete installation of the AVI system by September 18, 2006. The 2006 letter is shown in Exhibit 2.12.

Exhibit 2.12

September 1, 2006 Letter From Airports Division to Ted’s Wiring Service

LINDA LINGLE
GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
AIRPORTS DIVISION – OAHU DISTRICT
HONOLULU INTERNATIONAL AIRPORT
300 RODGERS BOULEVARD, #12
HONOLULU, HAWAII 96819-1830

V441
RODNEY K. HARAGA
DIRECTOR

Deputy Directors
FRANCIS PAUL KEENO
BARRY FUKUNAGA
BRENNON T. MOROCKA
BRIAN H. SEKIGUCHI

IN REPLY REFER TO:

AIR-OGT
06.0044

September 1, 2006

Mr. [REDACTED], P.E.
TED’S WIRING SERVICE, LTD.
500 Ala Kawa Street, Suite 222
Honolulu, Hawaii 96817

Dear Mr. [REDACTED]:

At the request of XCI Incorporated, the State of Hawaii, DOT, Oahu District agreed to meet with both Ted’s Wiring and XCI on June 15, 2006 to discuss the issues that are standing in the way of the completion of the AVI system in Honolulu and to find an expeditious solution to them. At that meeting, both Ted’s Wiring and XCI agreed to work through the issues and provide a timeline for completion of the AVI Project.

To date we have not received a timeline for completion but rather an impasse between both Ted’s Wiring and XCI. On August 29, 2006 we were copied on an e-mail addressed to Ted’s Wiring from [REDACTED] of XCI stating that your proposal was not acceptable and XCI was waiting for the Airport to inform them on how the matter with your company would be handled, before they could commit to any further communication with you.

As the successful bidder to the design and build of an AVI System for HNL the buck stops with you. As the project Contractor, it is your responsibility to deal directly with and resolve any conflict with your Sub-Contractor.

The contractual completion date for the AVI project was August 13, 2003. You are 630 days past the deadline. Despite numerous revised timelines you have failed to complete the project. We urge you to complete the project to avoid any liquidated damages. Should you fail to complete the installation of the AVI system by September 18, 2006 we will begin to apply liquidated damages of \$300 per calendar day as outlined on page SP-20 in your contract under "schedule of liquidated damages. You may contact Ms. Rosie Nenezich, Ground Transportation Manager, at 836-6477, should you have any questions or require clarification on the matter.

Sincerely,

BENJAMIN R. SCHLAPAK
Manager
Oahu District Airports

Source: Airports Division

However, Airports subsequently realized that a liquidated damages provision was mistakenly excluded from Ted’s contract. According to the Airports Contracts Office engineer, this was likely because a third-party consultant was hired to prepare the original contract specifications for the Request for Proposals, and Airports personnel overseeing the procurement may not have been familiar with the proper procurement

and contracting requirements for this project. Nevertheless, Airports could not definitively identify why the mistake had occurred. On September 26, 2006, and August 20, 2007, Airports sent similar follow-up letters to Ted’s, each time extending the deadline for Ted’s to complete the installation and threatening to terminate the contract if it was not completed by the revised dates. From late 2007 to early 2008, there were continuing communication problems between Ted’s and XCI until it was finally discovered that XCI was going out of business. In mid-2008, Ted’s identified an alternative manufacturer of the needed equipment and indicated it would communicate with the new manufacturer to agree on a price. However, by late 2008, the issue was still outstanding. In November and December 2008, the new manufacturer sent at least three emails to Ted’s and Airports attempting to follow up on the status of the project and indicating repeated unsuccessful attempts to contact Ted’s. In October and December 2008, Airports sent additional follow-up letters to Ted’s, again threatening to terminate the contract if not completed by newly extended deadlines. Despite its repeated threats, however, Airports did not take more serious action against Ted’s until June 2009, when the project was six years overdue.

According to Airports personnel involved in the project, they recommended finding Ted’s in default of the contract as early as 2006, especially in light of Ted’s unresponsiveness. However, the then-O’ahu Airports district manager was reluctant to declare a default because he believed Ted’s was close to completing the project. Airports was also concerned that finding Ted’s in default would prevent Airports from utilizing Ted’s to perform electrical repairs at Honolulu International Airport’s airfields, as Ted’s often performed such work and possibly knew the electrical system better than Airports staff. Airports personnel were unable to provide further information or support for the decisions made at the time.

Following legislative hearings in early 2009 regarding the Ted’s and other Airports contracts, the then-director of transportation declared Ted’s in default. In a letter dated June 23, 2009, the department notified Ted’s of the default and instructed the surety to complete the contract under the performance bond. The AVI system was finally completed and accepted by Airports in February 2010, and the two-year maintenance phase was scheduled to end on February 15, 2012. Although the AVI system is installed and in use, at the time of our fieldwork, the system was being used only as an information-gathering tool for parking and taxi operations and was not directly generating revenues, contrary to the projections in Ted’s proposal at the time of the initial contract.

Despite Ted’s inability to fulfill the terms of its AVI contract, Airports did not report Ted’s to SPO for possible suspension or debarment. Although

Airports indicated it planned to follow up with SPO to seek suspension of Ted’s, it had not taken further action as of the completion of our fieldwork. In addition, while no action was taken against Ted’s over the more than six years that the AVI project was delayed, the department continued to award other contracts to Ted’s. Exhibit 2.13 lists seven additional contracts awarded to Ted’s between June 2004 and June 2010.

Exhibit 2.13
Other Contracts Awarded to Ted’s Wiring Service, June 2004 to June 2010
 (rounded to nearest thousand)

Division	Year	Contract No.	Description	Contract Amount
Airports	2005	53869	Upgrade electrical system at Honolulu International Airport	\$ 6,000,000
Airports	2008	56625	Miscellaneous electrical work at Kalaeloa Airport	\$ 610,000
Airports	2009	58491	Electrical repairs for Worchester underpass	\$ 113,000
Harbors	2007	55024	Security surveillance system for neighbor island	\$ 555,000
Harbors	2010	N/A	Repair range lights at Keehi Lagoon	\$ 28,000
Harbors	2010	59079	Repair lighting at Clock Tower room	\$ 34,000
Highways	2008	56975	Traffic signal modernization, LED signal retrofit, Phase 2	\$ 561,000
Total amount awarded				\$ 7,901,000

Source: Department of Transportation

Carryover of outdated concession contracts eliminates competition and impacts potential revenue to the State

Airports administers taxi and parking management and service concessions at state airports, including Honolulu International Airport. During our examination of fiscal years 2009 and 2010, we found the parking and taxi concessions at the Honolulu International Airport were operated by AMPCO System Parking under revocable permits that had expired in prior years and were held over without formal agreement. Further, the original agreements for both concessions had been executed via “direct negotiations” with AMPCO, effectively eliminating competition and making it difficult to determine whether the State could have obtained greater revenues through a competitive process, particularly as Airports produced no documentation of its negotiations.

Honolulu airport taxi contractor’s concession fees unchanged since 2004

The concessionaire for taxi management services at Honolulu International Airport is AMPCO System Parking, doing business as AMPCO Express. AMPCO operates, manages, and administers the on-demand, open-access taxi system at the Honolulu International Airport under a revocable permit. Although Airports initially sought to procure

concessionaire services via a competitive award process in 2002, the division ultimately entered into “direct negotiations” with AMPCO and issued it a revocable permit in July 2004. Further, although the permit expired in April 2005, at the time of our fieldwork, AMPCO continued to operate under the expired permit and was paying concession fees to Airports at the same rates since 2004.

In July 2003, Airports published a Request for Qualifications (RFQ) for a taxi management concession lease at Honolulu International Airport. The RFQ contained qualifying restrictions that Airports asserts were intended to prevent favoritism by the concessionaire for its own drivers. The RFQ evaluation committee disqualified one of the three bidders and recommended awarding AMPCO the “first and sole right to negotiate with” Airports over the concession lease. After the department notified bidders of the award to AMPCO, the disqualified bidder challenged the qualifying restrictions, raising concerns that they were too limiting and prohibited other well-qualified companies from competing. Due to the controversy and resulting delay, DOT ultimately cancelled the RFQ in January 2004.

Airports management then requested approval to directly negotiate the taxi management concession with AMPCO pursuant to Section 102-2(b)(1), HRS, which addresses concession contracts. The DOT’s interpretation is that this statute exempts concession agreements from the requirements of Chapter 103D, HRS, and allows agencies to conduct “direct negotiations” with specific vendors. In February 2004, the then-director of transportation and the Board of Land and Natural Resources approved Airports’ request to directly negotiate with AMPCO.

Airports subsequently conducted direct negotiations with AMPCO and issued it a revocable permit in July 2004. The permit granted AMPCO permission and responsibility to provide taxi management services at Honolulu International Airport, including operating, managing, and administering the taxi system and providing reasonably safe and reliable on-demand taxi service to the public. The permit was granted on a month-to-month basis for a period not to exceed one year, commencing May 1, 2004.

AMPCO was still operating under that permit through the completion of our fieldwork—almost six years after the term set forth in its permit. Airports management confirmed that both the terms of the agreement and permit have monthly payment requirements have remained the same since its effective date. Exhibit 2.14 shows the annual revenues paid by AMPCO to Airports from FY2005 through FY2010.

Exhibit 2.14**Taxi Concession Revenues, FY2005 to FY2010 (rounded to nearest thousand)**

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	Total
Gross receipts	\$1,616,000	\$1,602,000	\$1,624,000	\$1,631,000	\$1,360,000	\$1,379,000	\$9,212,000
AMPCO revenue	\$1,358,000	\$1,351,000	\$1,357,000	\$1,359,000	\$1,262,000	\$1,275,000	\$7,962,000
Airports revenue	\$258,000	\$251,000	\$267,000	\$272,000	\$98,000	\$104,000	\$1,250,000

Source: Compiled by Accuity LLP based on information provided by Airports

In March 2005, Airports transmitted a new concession agreement to AMPCO for execution, which would have extended the term of the concession and revised a few provisions; however, that agreement was never executed and Airports had no evidence of a response from AMPCO. An April 2005 memorandum to file from the Property Management and Land Acquisition supervisor regarding the taxi management concession stated that Airports and AMPCO were “continu[ing] to negotiate the language of a final long-term agreement for operation of the on-demand taxi system” and that the term of the revocable permit would “remain in effect until such time as agreement is reached” or until the existing agreement is terminated. However, no formal extension was executed.

According to Airports management, Airports has no further evidence of negotiations related to the AMPCO taxi management permit. They stated that from 2005 to 2008, the Property Management and Land Acquisition Section only worked on the taxi concession agreement as time permitted between Airports’ other concession activities due to staff shortages. In 2009, the section was able to prepare a draft long-term contract, which was sent to AMPCO for review in November 2009, but had not been executed by the end of our fieldwork.

Airports waived parking contractor’s minimum guaranteed payment without independent analysis of contractor costs

In July 1994, Airports executed a contract with AMPCO to manage and operate the automobile parking facilities at the Honolulu International Airport. The contract was for a term of four years, from February 1994 to January 1998. Under the agreement, AMPCO was to pay Airports the greater of 85 percent of annual gross receipts or a minimum guaranteed payment of one-twelfth (1/12) of the minimum annual guaranteed payment for the final year of the prior contract for each year as follows:

<u>Contract year</u>	<u>Minimum annual guaranteed payment</u>
Year 1	\$ 9,791,194
Year 2	\$ 10,079,879
Year 3	\$ 10,359,976
Year 4	\$ 10,645,343
Total	<u>\$ 40,876,392</u>

After the contract expired in March 1998, Airports executed a revocable permit with AMPCO to extend AMPCO’s right to manage and operate the parking facilities under the same terms and conditions of the original contract. Airports chose to directly negotiate the agreement pursuant to Section 102-2(b)(1), HRS, which, as previously discussed, DOT believes exempts concession agreements from the requirements of the State procurement code (Chapter 103D, HRS). According to management, Airports chose to directly negotiate with AMPCO because Airports was satisfied with the services provided under the previous contract. The permit was granted on a month-to-month basis for a period not to exceed one year from February 1, 1998.

In November 1998, AMPCO requested that the minimum guaranteed payment requirement be waived and that AMPCO continue to operate under the permit by paying Airports based solely on a percentage of gross receipts. AMPCO claimed that competition from rental car companies had negatively affected the parking revenue stream, causing undue hardship for AMPCO. The then-Airports administrator agreed to waive the minimum guarantee requirement. According to management, Airports did not perform an independent evaluation of AMPCO’s decreasing parking revenues or of the impact of waiving its minimum guarantee. Management also acknowledged that the waiver gave AMPCO “a more favorable position than other concessionaires in the same situation.”

From 2003 to 2006, Airports made various adjustments to the percentage payment requirement as a result of September 11, 2001, and the implementation and subsequent abolition of a 30-minute free parking policy at U.S. airports. Division personnel asserted that not having a long-term contract allowed Airports to execute these adjustments without the concessionaire’s agreement. However, all adjustments resulted in at least 5 percent *less* revenue to Airports than the 85 percent of gross receipts required by the permit. Exhibit 2.15 shows a breakdown of parking concession revenues for FY2000 through FY2010. We noted that Airports obtains an annual audited statement of gross revenues and fees owed from AMPCO.

Exhibit 2.15**Parking Concession Revenues, FY2000 to FY2010 (rounded to nearest thousand)**

Fiscal year	Gross receipts	AMPCO revenue	Airports revenue	% of gross receipts paid
2000	\$ 12,617,000	\$ 1,893,000	\$ 10,724,000	85%
2001	\$ 13,300,000	\$ 1,995,000	\$ 11,305,000	85%
2002	\$ 11,619,000	\$ 1,743,000	\$ 9,876,000	85%
2003	\$ 11,948,000	\$ 1,792,000	\$ 10,156,000	85%
2004	\$ 11,662,000	\$ 2,739,000	\$ 8,923,000	77%
2005	\$ 12,812,000	\$ 2,809,000	\$ 10,003,000	78%
2006	\$ 14,342,000	\$ 2,868,000	\$ 1,474,000	80%
2007	\$ 15,526,000	\$ 3,105,000	\$ 12,421,000	80%
2008	\$ 15,746,000	\$ 3,149,000	\$ 12,597,000	80%
2009	\$ 14,762,000	\$ 2,952,000	\$ 11,810,000	80%
2010	\$ 17,173,000	\$ 3,435,000	\$ 13,738,000	80%
Totals	\$ 151,507,000	\$ 28,480,000	\$ 123,027,000	81%

Source: Airports Division

Although the permit with AMPCO expired in January 1999, AMPCO continued to operate its parking concession without a formal agreement through July 31, 2010—a period of more than 11 years. According to Airports personnel, Airports hired an outside consultant in mid-2006 to review airport parking operations and to prepare and negotiate new parking contracts. Airports and AMPCO executed a new contract effective August 1, 2010, again via direct negotiations. Because Airports directly negotiated the new agreement with AMPCO, it is difficult to assess whether the State could have obtained a more competitive fee and generated greater revenues through a competitive procurement process. Further, as the previous permit expired in 1999, a new agreement may have been reached more expeditiously by using another procurement method.

Improved Training and Oversight Could Reduce Violations and Inconsistencies among Divisions

Despite the glaring procurement deficiencies within Airports, the department does utilize some best practices. However, best practices were not employed consistently across the department and we identified deficiencies and procurement violations in each division. These included failing to physically secure bids, missing documentation from contract files, small purchase violations, incorrect rejection of low bid due to misinterpretation of law, and failure to monitor and timely extend contracts. Lack of training and monitoring of training compliance were the primary causes of these inconsistencies and violations.

Personnel with procurement authority did not attend required trainings

Procurement authority is determined by the director of transportation and delegated through Department of Transportation *Procurement Delegation* forms. Revisions to procurement delegations are performed as necessary and approved by the director.

We found multiple instances in which employees with delegated procurement authority did not complete training for their procurement responsibilities during FY2009 and FY2010. We obtained an SPO list of trainings that department employees attended from FY2006 through FY2010. Exhibit 2.16 lists the titles of individuals with procurement authority and indicates the training they attended from FY2006 through FY2010.

**Exhibit 2.16
Analysis of Training Attendance of Employees With Procurement Authority**

Division	Position	Type of procurement Authority	Training attended				
			FY2006	FY2007	FY2008	FY2009	FY2010
Administration	Civil Rights Coordinator	Small purchase	No	Yes	No	No	No
	Personnel Officer	Small purchase	No	Yes	No	No	No
	Program Eval Analysis Manager	Small purchase	N/A	N/A	No	No	No
Airports	Engineering Program Manager	Small purchase	N/A	N/A	No	No	No
	Airports District Manager	Emergency; small purchase	Some	Some	No	No	No
	Administrative Services Officer	Emergency	N/A	N/A	No	No	No
	Airports District Manager	Emergency	No	No	No	Some	No
	Business Service Supervisor	Small purchase	No	Yes	No	No	No
	Airports District Manager	Emergency	N/A	N/A	No	No	No
Harbors	District Manager	Emergency	No	No	No	No	No
	District Manager	Emergency	No	No	No	No	No
	Business Service Supervisor	Small purchase	No	Yes	No	No	No
Highways	District Engineer	Exempt; sole source; emergency	No	No	No	No	No
	Administrative Services Officer	Sole source; small purchase; exempt; emergency	Some	Some	Some	No	No
	District Engineer	Exempt	No	No	No	No	No
	Business Service Supervisor	Exempt	No	No	No	No	No
	Business Service Supervisor	Exempt	N/A	N/A	No	No	No
	District Engineer	Sole source; small purchase; exempt; emergency	No	Yes	Some	No	No

Source: Compiled by Accuity LLP from Department of Transportation *Procurement Delegation* forms and State Procurement Office training list for FY2006 through FY2010 as provided by Department of Transportation

During FY2009 and FY2010, Administration, Harbors, and Airports all placed the responsibility of attending training upon each employee with procurement delegation. For Highways, the procurement and supply specialist from the Fiscal Office was charged with ensuring the division’s employees received training prior to recommending a change of procurement authority. Effective December 2010, the Contracts Office began centrally monitoring procurement training attendance of persons involved in the procurement process across the department.

However, during FY2009 and FY2010, there was no formal policy within DOT that required personnel to attend recurring trainings for system in place to ensure employees remained abreast with the application of and changes to the procurement code. This lack of oversight by department management over employees with procurement delegation likely contributed to many of the various procurement violations we identified during our examination, as a lack of training and understanding of applicable procurement laws and rules was often the underlying cause of those violations.

Certain contract awards were not posted within required timeframe

We found multiple instances in which professional services contracts awards were not posted on the SPO website within the seven-day time frame required under Section 103D-304(i), HRS. Exhibit 2.17 displays 14 professional service contracts not posted within seven days of the award for all DOT divisions from FY2007 through FY2009. Airports was responsible for the most delinquent contract award postings, with eight such delinquencies. Highways had three delinquencies, Harbors had two, and Administration had one. Delinquencies ranged from three to 14 months, with six awards not posted at all at the time of our fieldwork. Airports was responsible for four of these, with Harbors and Highways responsible for one each.

Exhibit 2.17**Professional Service Contracts Not Posted Within Seven Days of Award,
FY2007 through FY2009**

Item	Division	Project Number	Contractor	Amount	Award Date	Posting Date	No. days late
1	Airports	AO1098-17	Wesley R. Segawa	\$ 990,000	10/23/2007	01/09/2009	437
2	Airports	CS1903-33	Bowers + Kubota Consulting, Inc.	\$ 400,000	03/27/2009	Not posted	727*
3	Airports	AO1150-02	Bowers + Kubota Consulting, Inc.	\$ 1,430,000	03/10/2009	Not posted	744*
4	Airports	AO1095-30	SSFM International, Inc.	\$ 729,457	10/22/2008	03/23/2009	145
5	Airports	AO1123-32	KYA Design Group	\$ 6,330,000	03/10/2009	Not posted	744*
6	Airports	AM1011-09	R. M. Towill Corporation	\$ 2,429,014	09/19/2008	Not posted	916*
7	Airports	AO1030-13	Parsons Transportation Group, Inc.	\$ 8,400,000	08/23/2006	04/16/2007	229
8	Airports	AO1030-15	Hellmuth, Obata + Kassabaum, Inc.	\$ 4,000,000	11/23/2006	04/25/2007	146
9	Harbors	H.C. 90032	SSFM International, Inc.	\$ 1,500,000	06/25/2007	11/21/2007	142
10	Harbors	H.C. 10370	Kai Hawaii, Inc.	\$ 400,000	06/17/2008	Not posted	1,010*
11	Highways	BR-093-1(21)	SSFM International, Inc.	\$ 971,000	04/17/2008	07/28/2008	95
12	Highways	PL-0052(31)	CH2M Hill, Inc.	\$ 1,549,200	03/24/2009	Not posted	730*
13	Highways	HWY-OM-2009-46	EnviroServices & Trng Center, LLC	\$ 6,300,000	02/16/2009	09/01/2009	190
14	Administration	SPR-0010(30)(31)	SSFM International, Inc.	\$ 4,000,000	04/15/2009	09/02/2010	498
TOTAL				\$ 39,428,671			

* Calculation is through March 31, 2011 (end of fieldwork)

Source: Compiled by Accuity LLP

The department’s procurement manual does not contain a formal policy specifically addressing the requirement to post awards within seven days. Upon inquiry with the various division administrative services officers, we were informed that only certain individuals within the divisions, typically the procurement specialists, have access to post awards on the SPO website. However, for Airports and Administration, project managers are responsible for ensuring award notices are posted in a timely manner. Although project managers generally do not have access to post award information on the SPO website, they are responsible for providing timely award information to individuals who do have access, to ensure compliance with award-posting requirements.

The award-posting requirement provides vendors and the public timely information regarding contract awards. This is especially critical for non-winning bidders who may request a debriefing, or even file a formal protest, as provided for in the procurement code. Failure to timely post contract awards diminishes the transparency of the procurement process.

Conclusion

The Department of Transportation plays a vital role for Hawai‘i and its economy, facilitating the movement of people and goods into, within, and out of state boundaries. To achieve its goals, the department is entrusted with tremendous resources—which carry an equal amount of

responsibility and expectation. However, at a time when the State was resorting to mass layoffs and severe budget cuts, the department did not ensure it was exercising due care in the outlay of these entrusted dollars. The Airports Division, in particular, has not placed a priority on ensuring best value for state moneys. In addition to paying contractors tens of millions of dollars to manage a billion dollar-plus project without adequate oversight, Airports Division has made a series of questionable procurement decisions that appear to demonstrate a willingness to put contractor needs before the public interest. Previous department and Airports leaders have defended responsible personnel and their actions, despite the numerous violations, delays, and excess costs that ultimately resulted. While there are many specific actions the department should take to prevent future violations, none would have greater impact than a top-down reinforcement of the purpose of procurement laws and a call for compliance. Those entrusted with procurement and expenditure of public moneys must be reminded of their responsibilities to promote integrity and serve the best interests of the public.

Recommendations

Department of Transportation leadership should assume a stronger role in ensuring proper procurement practices and addressing violations across departmental divisions. The department must emphasize the importance of compliance with procurement laws and rules, particularly with its Airports Division, and assist all divisions in strengthening their procurement control environment.

1. With respect to the Airports Division Terminal Modernization Program and related program management contract, the department should:
 - a. Review the department’s and Airports’ construction management policies and procedures to ensure there is sufficient oversight of contractors performing management services;
 - b. Provide training to all divisions regarding the use of contractors for program, project, and construction management services;
 - c. Ensure personnel in all divisions, particularly in Airports, are performing and documenting cost-benefit analyses when deciding to use contractors for management services-type contracts, especially for multi-year and multi-million dollar contracts;

- d. Review the terms of the consultant program manager contract and determine if providing the consultant with free rent and allowing it to charge the maximum allowable labor multiplier is fair and in the best interest of the State;
 - e. Seek to amend the contract with the consultant program manager to allow review and audit of the application of the labor multiplier;
 - f. Ensure Airports personnel adequately review task orders and invoices under the program management contract to ensure costs are reasonable and allowable and that proper support documentation is included;
 - g. Ensure Airports personnel properly review and approve changes to contracts before related work is performed; and
 - h. For future contracts involving program, project, or construction management responsibilities, ensure Airports properly procures contracts in accordance with Section 103D-304, HRS, and SPO Procurement Circular No. 2009-06, which state that procurement must be for a specified professional class, and that the contract requires the professional to perform a substantial portion of the scope of work. Airports should consult with the departmental Contracts Office and SPO if there is any uncertainty.
2. With respect to other violations and procurement concerns identified in the Airports Division, the department should:
 - a. Ensure Airports implements formal procedures to regularly (i.e., monthly) and actively monitor the costs of security services incurred in all districts to ensure costs appear reasonable and in line with management’s expectations, rather than merely relying on the practices of individual Airport District managers;
 - b. Examine Airports’ use of pre-engineered kit homes to provide field offices for construction managers and evaluate the cost-benefits of constructing such homes versus buying or renting mobile offices; also examine the practice of bundling their kit home construction with large construction projects rather than procuring via a separate competitive procurement process;
 - c. Seek guidance from the State Procurement Office in determining what actions can and should be taken

against Ted’s Wiring Service to recover any damages for the extensive delays in completing the AVI project and to prevent such situations from recurring; and

- d. Ensure Airports implements formal procedures to improve monitoring and planning for contracts and services agreements so that new agreements are procured prior to and begin upon the expiration of existing agreements.
3. To address procurement non-compliance identified at the various divisions, the department should:
- a. Ensure personnel with procurement authority attend required procurement training, and that the contracts office centrally monitors their attendance at procurement training activities; and
 - b. Develop a process to ensure contract awards are posted timely, which may involve having the individual(s) responsible for issuing award letters also be responsible for posting awards publicly, including having access and authority to post to SPO’s website.

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Chapter 3

Independent Accountant's Report on Internal Controls

This chapter presents the independent accountant's report issued by Accuity LLP on the internal controls over compliance for the Department of Transportation's procurement of goods and services for the fiscal years ended June 30, 2009 and 2010.

Independent Accountant's Report

To the Auditor, State of Hawai'i

We have examined the effectiveness of the State of Hawai'i, Department of Transportation's (the department) internal controls over compliance for the procurement of goods and services for the fiscal years ended June 30, 2010 and 2009. The department's management is responsible for maintaining effective internal controls over compliance for the procurement of goods and services. However, we did not request, and the department's management did not provide us, a written assertion about the department's internal controls over compliance for the procurement of goods and services. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the department's internal controls over the compliance for the procurement of goods and services and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a specified requirement will not be prevented or detected. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects a department's ability to comply with a specified requirement such that there is more than a remote likelihood that noncompliance with a specified requirement that is more than inconsequential will not be prevented or detected by the department's internal control. We identified material weaknesses which are described in Chapter 2 of this report.

In our opinion, because of the effects of the material weaknesses described in Chapter 2 of this report on the achievement of the objectives of the control criteria, the department has not maintained effective internal controls over compliance for the procurement of goods and services for the fiscal years ended June 30, 2010 and 2009.

This report is intended solely for the information and use of the State Auditor, the Hawai'i State Legislature, and the department's management and is not intended to be, and should not be, used by anyone other than these specified parties.

/s/ Accuity LLP
Honolulu, Hawai'i
May 3, 2013

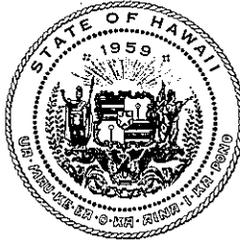
Response of the Affected Agency

Comments on Agency Response

We transmitted a draft of this report to the Department of Transportation on April 26, 2013. A copy of the transmittal letter is included as Attachment 1. The department's response, received on May 3, 2013, is included as Attachment 2.

The department did not disagree with nor dispute any of our findings. According to the director, a new administration has assumed a stronger, centralized leadership role and continues to emphasize the importance of compliance with procurement laws and rules. For instance, the director explained that the department now charges its consultant rent for use of state-owned facilities. The department also began auditing the labor multiplier of all consultants' contracts. Such an audit resulted in a lowering of the Parson's Transportation Group, Inc. multiplier from 2.88 to 2.36. In addition, the director assured us that staff are now required to complete appropriate procurement training before procurement authority is granted.

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



JAN K. YAMANE
Acting State Auditor

(808) 587-0800
FAX: (808) 587-0830

April 26, 2013

COPY

The Honorable Glenn Okimoto
Director
Department of Transportation
Aliiaimoku Building
869 Punchbowl Street, Room 509
Honolulu, Hawaii 96813

Dear Mr. Okimoto:

Enclosed for your information are five copies, numbered 6 to 10, of our confidential draft report, *Procurement Examination of the Department of Transportation*. We ask that you telephone us by Tuesday, April 30, 2013, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Friday, May 3, 2013.

The Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this confidential draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Jan K. Yamane
Acting State Auditor

Enclosures

NEIL ABERCROMBIE
GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

GLENN M. OKIMOTO
DIRECTOR

Deputy Directors
JADE T. BUTAY
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JADINE URASAKI

IN REPLY REFER TO:

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RECEIVED

May 3, 2013

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OFF. OF THE AUDITOR
STATE OF HAWAII

Ms. Jan K. Yamane
Acting State Auditor
Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813

Subject: Department's Response to the Report on the Audit of Procurement Examination
of the Department of Transportation

Dear Ms. Yamane:

The Department of Transportation (DOT) considers an audit to be a management tool to identify shortcomings and areas for improvement. The focus of the Auditor's report was on fiscal year June 30, 2009 and June 30, 2010 and since then much has been accomplished to ensure proper procurement practices are being followed throughout our Department.

We appreciate the opportunity to comment on your draft report, "Procurement Examination of the Department of Transportation" which was issued to us on April 26, 2013. We have the following comments on the report.

Airports Division Has Surrendered Oversight and Management Responsibilities to Contractor

The Airports Division takes seriously its responsibility to provide oversight and management of contracted consultants and the necessary involvement in decision making of its Honolulu International Airport Terminal Modernization Program.

Because the Airports Division does not have the quantity of staff sufficient to manage its modernization program, it chose to follow successful models of staff augmentation used by other airports nationwide to manage this type of complex and colossal program.

The terms of the Parson's Transportation Group, Inc. contract are to provide program management support services. The Airports Division staff provides oversight roles for management tasks and acts as primary managers of the major projects.

The Airports Division is not disputing the non-standard practices cited in the audit of rent-free facilities and reimbursement of office renovation expenses, but it was against staff's recommendations, and overridden by the then-Airport's Deputy Director.

The new Administration stopped these types of practices by charging consultants rent under revocable permits and auditing the multiplier of all consultant contracts. As a result, the multiplier of the Parson's contract was lowered from 2.88 to 2.36 on January 1, 2011.

Airports Division Is Unable or Unwilling to Plan for and Provide Proper Oversight of Contracts It Manages Directly

We acknowledge the fact that the Airports Division did not procure a new security contract in a timely manner. The new Administration has been diligent on monitoring, reviewing and executing extension requests on a timely basis by following appropriate requirements and only if the extension is in the best interest of the State.

Bundled procurement limited competitive bidding and may have resulted in gross overpayment for field offices

We agree the Airports Division should have separately procured the construction of the field offices rather than bundling them with the construction projects to encourage fair competition and to obtain the best value for the State. The intentions were in good faith as it was believed that the Airports Division would be saving money by procuring a field office under the first of multiple projects and having that asset available for future projects. Going forward, the field offices will be used for projects and rent at the fair market value will be charged to all users.

Allowances afforded certain contractors resulted in project delays and increased costs

The Airports Division acknowledges the lack of diligence in enforcing the terms of the contract for the Automated Vehicle Identification project. There were factors in the life of the project that decisions were made at that time; the bankruptcy of a major subcontractor supported a decision to salvage the project by providing Ted's Wiring Service more time to finish the project. As the Audit Report indicates, in 2009, the contract was still open and the Airports Division issued a finding of default against Ted's Wiring Service and directed the surety company to complete the project.

Under the new Administration, the Airports Division also made a request to the State Procurement Office for debarment of Ted's Wiring Service on May 25, 2011. The surety company completed the contract obligations for Ted's Wiring Service under terms of a Takeover Agreement dated October 13, 2009, and it was determined there was not sufficient grounds to continue with debarment proceedings. The final settlement of this contract is currently pending a response from the surety company.

Honolulu Airport taxi contractor's concession fees unchanged since 2004

The new Administration, recognizing this material weakness entered into a new agreement with AMPCO to manage the Honolulu International Airport Taxi Concession on February 1, 2012. This new agreement requires AMPCO to pay the greater of a Minimum Annual Guarantee (MAG) or 20% of gross receipts. In the first full contract year of the agreement the Airports Division received approximately \$411,000.

In keeping with the new Administration's current practice of fixing the MAG for the first year of a concession agreement and adjusting the MAG in subsequent years to a level appropriate for the concession, this contract also provides that the MAG adjust annually to 85% of the actual annual fee paid and payable to the Airports Division in the preceding year. The full concession fee for each year of the contract is the greater of the MAG or 20% of gross receipts.

Airports waived airport parking contractor's minimum guaranteed payment without independent analysis of contractor costs

To ensure future agreements are executed with legal authority, the Airports Division will seek a legal opinion from the Department of the Attorney General on the intent of Hawaii Revised Statute 102-2(b) (1), which exempts certain concessions from the requirements under Hawaii Revised Statute Chapter 103D.

Improved Training and Oversight Could Reduce Violations and Inconsistencies between Divisions

With the new Administration's leadership, the DOT's procurement delegation has been revised and restricted to staff that requires the authority. More importantly, the Director has retained management control over the approval process. Measures have been implemented in this new Administration to ensure that appropriate procurement training is completed before procurement authority is granted. The Business Management Office has the oversight and works with the Divisions to monitor the procurement delegation and required training of staff through this new process and retained in an active database.

Certain contract awards not posted within required timeframe

The DOT is redeveloping a departmental policy and workflow process to ensure posting of the awards are done within the required timeframe. The Contracts Office will implement the new policy, provide guidance and monitor the process.

Ms. Jan K. Yamane
May 3, 2013
Page 4

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In Conclusion

The new Administration has assumed a stronger centralized leadership role and continues to emphasize the importance of compliance with procurement laws and rules through internal policies and controls, procurement training and management oversight and will continue to strive to improve on procurement management.

Thank you for the opportunity to respond.

Very Truly Yours,

A handwritten signature in black ink, appearing to read "Glenn M. Okimoto". The signature is fluid and cursive, with the first name "Glenn" being the most prominent.

GLENN M. OKIMOTO, Ph.D.
Director of Transportation