

# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

## Procurement Audit of the Department of Business, Economic Development and Tourism

### Summary

The mission of the Department of Business, Economic Development and Tourism (DBEDT) is “to support business, create jobs, and improve Hawaii’s standard of living through diversifying the economy, expanding existing business, and attracting new economic activity.” The department relies extensively on contracts to carry out its mission.

The Hawaii Public Procurement Code (codified as Chapter 103D, Hawaii Revised Statutes), was enacted to ensure fiscal integrity, responsibility, and efficiency in the procurement process. The purpose of the audit was to assess compliance with the code and to address concerns over the significant amount of the department’s expenditures of general funds for service contracts. In our previous 1995 *Audit of Contract Administration and the Office of Space Industry in the Department of Business, Economic Development and Tourism*, Report No. 95-3, we found that the department exhibited significant weaknesses in the management of its contracts.

The final approval of all procurement decisions, as well as oversight for compliance with Chapter 103D, HRS, is now highly centralized within the department. This centralization of oversight responsibility has resulted in a high level of compliance with the provisions of the Hawaii Public Procurement Code. Instances of non-compliance were isolated and rare. However, the high level of compliance is at risk due to the lack of a detailed procurement manual.

The department has made serious efforts to improve its contracting practices over the past two years. It has made noticeable progress in planning for and drafting contracts. In planning for its contracts, the department clearly defines the issues, problems, or needs for contract services. It determines the quantitative and qualitative results desired and establishes performance indicators, standards, and acceptable quality levels. As a result of our previous audit, the department has implemented an adequate and well documented evaluation process in making contract awards. The department now competently drafts contracts with the scope of services clearly defined and insures that expected outcomes and benefits are thoroughly communicated.

Weaknesses remain in the areas of contract management and outcome evaluation. Many project managers were not following departmental procedures for contract administration. This resulted in poor accountability over the contractor and led to weak controls over incremental contract payments. Project managers also failed to



evaluate the outcomes of about 60 percent of the completed contracts we reviewed. Thus, it could not be established whether the intended objectives of the contracts were achieved and whether the fiduciary responsibility of the department to effectively and efficiently manage public resources had been fulfilled.

The department's weaknesses in contract management and evaluation may be due to the lack of a contract administration policies and procedures manual and central oversight of project managers. Without a manual to ensure uniform requirements and processes, improvements may be jeopardized with the loss of key personnel. A manual and increased centralized oversight will be useful in training and encouraging project managers to monitor and evaluate contracts.

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## Recommendations and Response

We recommend that the Department of Business, Economic Development and Tourism develop a detailed procurement manual for use by all operating units. In addition, the department should develop a contracting policies and procedures manual for use by all project managers and ensure that all project managers are properly trained in contracting policies and procedures. Finally, the department should ensure that all project managers are audited for compliance with departmental contracting policies and procedures.

The department concurs with the findings and recommendations of the audit. It is currently in the process of enhancing its project management system through training of key departmental personnel and by integrating this system with an on-line computerized tracking system. In addition, the department recognizes the importance of documenting its policies and procedures and has begun drafting a project management section as a part of its departmental policies and procedures manual.

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