

ANALYSIS

Item 53: Department of Revenue

Core Systems Replacement Project Report

Analysts: John Borden and Sean McSpaden

Request: Acknowledge receipt of a report on the Core Systems Replacement Project.

Recommendation: Acknowledge receipt of the report.

Analysis: The Department of Revenue (DOR), per the direction of the Emergency Board, has submitted a report on its Core Systems Replacement (CSR) project and the agency's readiness to proceed with the project's planned phase-I implementation on November 12, 2014.

The CSR project will be rolled out each Fall for the next four years starting with Corporate, Cigarette, and Tobacco tax programs (2014); Personal Income Tax, Emergency Telecommunications Tax, and Estate Tax (2015); Withholdings and Collection of Other Agency Accounts (2016); and other remaining programs included in the project (2017). For the project, major vendor software implementations must occur outside the peak tax season.

The project is scheduled to be fully completed by the 2017-19 biennium using a commercial-off-the-shelf (COTS) product (GenTax) to provide integrated support for state-wide tax, revenue collection, and management. The agency has adopted a "no customization" strategy, to the extent possible, and will use an iterative COTS implementation approach to configure the system.

The estimated one-time cost of implementation currently totals \$64.6 million and is to be funded with \$9.9 million of General Fund and \$54.7 million of Article XI-Q bonds. In prior biennia, the agency spent over \$7.3 million on planning for the project.

Full project funding has been provided by the Legislature this biennium. There is funding for additional staff, vendor support (FAST Enterprises), a quality assurance firm (CSG Government Solutions), a project controller (RK Technical Associates), a project advisory firm (Bluecrane), and an organizational change management firm (Sierra-Cedar). These resources are in addition to the agency's program management staff, chief information officer and staff, and division staff. The Department of Administrative Services is providing information technology, financial, and procurement oversight and support for the project.

Phase-I of the project is under budget, within scope, and on schedule, according to the most recent reports from the agency and CSG Government Solutions, its quality assurance vendor. The agency and QA rate all major aspects of the project as "Green," which means it is "On-track, only minor issues." Project governance has approved the project to proceed to Phase-I implementation. After review of these reports, the DAS Chief Information Office and Chief Financial Office have given no indication that the phase-I rollout is anything but on track and ready to go-live as planned.

The expectation is that the GenTax solution will provide full functionality and be fully operational for the Corporate, Cigarette, and Tobacco tax programs beginning November 12, 2014. This includes data, data interfaces, user and data security, information technology support, trained employees, informed stakeholders, and the decommissioning of legacy systems and processes, to name a few.

The Legislative Fiscal Office recommends acknowledging receipt of the report.

53
Oregon Department of Revenue
Analyst: Carbone

Request: Report on the Core System Replacement Project.

Recommendation: Acknowledge receipt of the report.

Discussion: The 2013 Legislature authorized the Department of Revenue's Core System Replacement project. The goals of this project are to:

- Strengthen business operations and reduce risk into the future by reinvesting in technology foundations to ensure system flexibility and adopt industry best practices.
- Increase effectiveness in compliance and revenue generation by streamlining agency processes and improving access to data.
- Improve customer service to taxpayers by empowering them with more on-line self-support options.

The project will extend through 2018 and is expected to require an investment of \$85.3 million. It is a staged project, with the agency's programs being rolled out in four phases over time. The first roll out, scheduled for November 2014, will include the Corporation Tax program and the Tobacco Tax program. The other tax programs will be included in subsequent roll outs in the fall of 2015, 2016 and 2017.

The center-piece of this project is the replacement of two-thirds of the agency's technology systems with a commercial off-the-shelf integrated tax solution called GenTax. Sixteen other state revenue agencies have successfully implemented the GenTax solution.

In House Bill 5008 (2013), the Legislature approved the 2013-15 funding for the project. The Department of Revenue and the Department of Administrative Services were directed to report to the Legislative Fiscal Office every six months, through the biennium, on the status of the project. This has occurred to date.

During the 2014 Legislative session, the Department of Revenue was directed to report during Legislative Days, in May and September 2014, on the status of the project. During the September meeting of the Legislative Emergency Board, the agency will report progress on implementing this project including the fact that the independent quality assurance contractor has reported, as of July 30, 2014, that the current "overall CSR Project is rated as "green," with a Risk of Project Failure rated as "low."

This project is receiving independent Quality Assurance (QA) and has been responsive to all of the QA contractor's findings regarding the health of the project. The agency is managing the project in accordance with industry best practices and maintains a proactive risk and issue log to address QA findings and other issues that have an impact on project cost, scope and quality. This project is currently rated "green" in all areas of the Quality Management Plan and will meet its first roll-out deadline in November for the Corporate Tax Program.



Oregon

John A. Kitzhaber, MD, Governor

Department of Revenue

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August 18, 2014

The Honorable Peter Courtney, Co-Chair
The Honorable Tina Kotek, Co-Chair
State Emergency Board
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

Nature of the Request

The Department of Revenue requests the opportunity to provide an update to the Joint Emergency Board regarding its Core Systems Replacement (CSR) project.

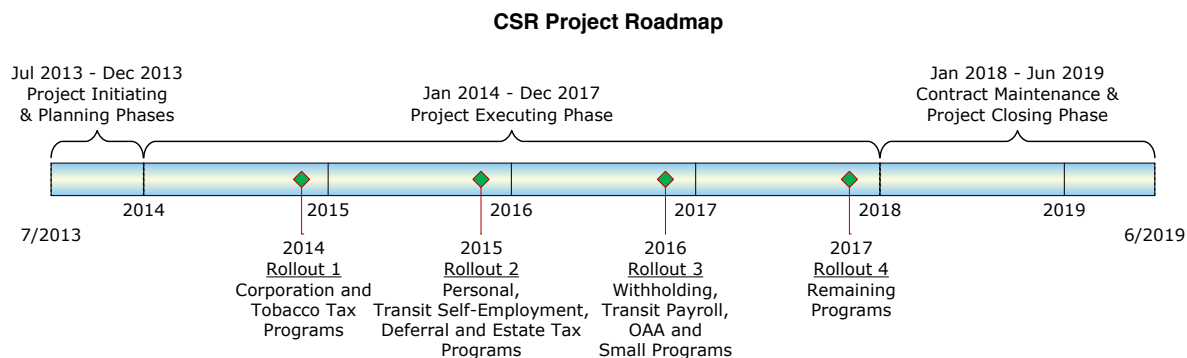
There is no action being requested at this time.

Agency Action

On July 8, 2013, the 2013 Legislature approved the Department of Revenue's policy option request to replace core processing systems. Funding was approved in HB 5008-A, and bond sales were authorized in SB 5506 to fund the majority of the project.

Readiness: Revenue is on track to successfully implement the first rollout of GenTax, a commercial off-the-shelf integrated tax solution, on November 12, 2014 for the Corporate, Cigarette, and Tobacco Tax programs. The project continues to be on schedule and under budget. The independent quality assurance team believes Revenue is on track for a successful, timely implementation.

Revenue is replacing its core systems in four rollout phases per the Project Roadmap chart below.



The set of criteria being monitored to determine readiness include the following categories. The information in this letter is as of early August, 2014, and Revenue plans to present an up-to-date report to the E-Board the week of September 15, 2014.

Scope: All scope requirements necessary for Rollout 1 are being met. To determine scope, the CSR project team assessed Revenue's needs and determined:

- Data to be converted.
- Legacy systems that will be retired, including functionality to be disabled in legacy systems for tax programs after they migrate to GenTax, as well as changes to keep legacy systems in sync with GenTax where needed during the life of the project.
- Configuration to provide functionality within GenTax to administer each program. Implementation specifications describe the functions configured within GenTax to meet Oregon's needs.

CSR project scope for Rollout 1 is defined by three components: tax programs converted (18), systems converted (13), and business requirements met (1,226). These components have been tracked and monitored throughout the rollout. Revenue is on track to address all scope matters relevant for Rollout 1.

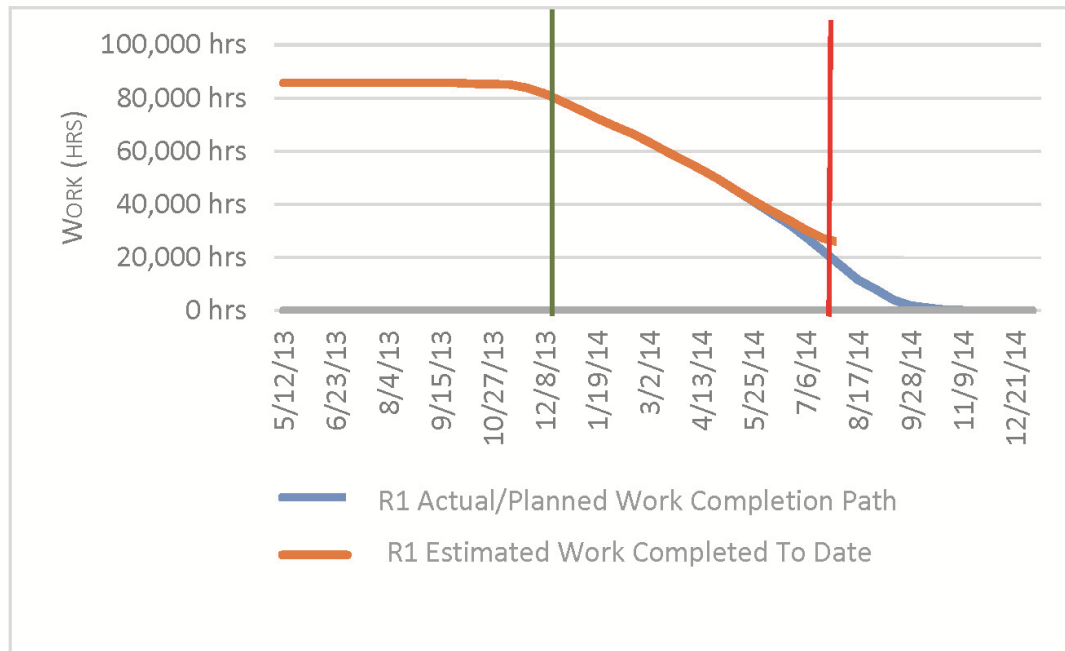
Changes to scope must be approved through the project's Change Control Board. Several scope changes have been submitted and approved through the project's change control process, including:

- Configuration for both bankruptcy functionality and external collection agency program administration have been moved to Rollout 2, since the majority of affected taxpayer accounts are included in that rollout.
- Migration of the 911 Emergency Communications Tax program has been moved from Rollout 3 to Rollout 2 to implement 2014 legislation.
- The ability to transfer unclaimed refunds from the new system to Division of State Lands is not needed until October 2015, so this requirement will be configured after Rollout 1.
- Some business requirements are not applicable for Rollout 1 tax programs and have been moved to later rollouts.

Schedule: The project is on schedule to go-live November 12, 2014. The schedule for Rollout 1 was baselined on April 16, 2014. Current schedule variance is 4.8%. One schedule change was approved to meet operational needs that moved the Rollout 1 go-live date from October 20, 2014 to November 12, 2014. The Rollout 1 schedule baseline includes two major components: GenTax implementation and legacy system changes.

GenTax implementation: Work completed is tracking closely to planned work. Adequate resources are available for the remaining work, which focuses on final testing, training, and cutover activities. The following chart provides an overview of GenTax implementation work completed as of July 31, 2014.

GENTAX R1 WORK OVERVIEW: July 31, 2014



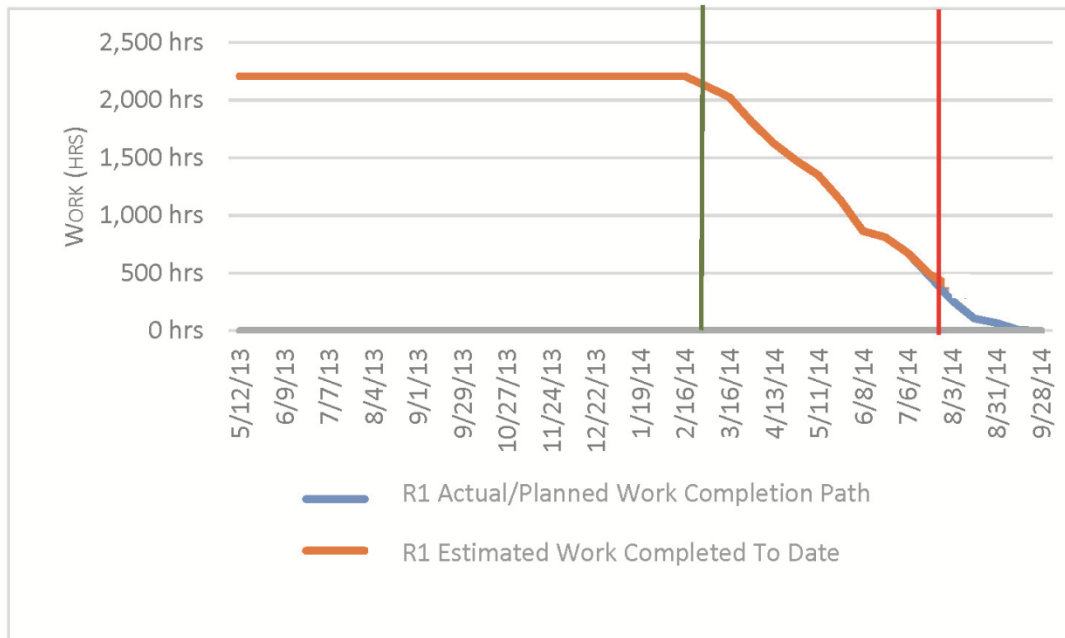
GenTax implementation Rollout 1 Work

Work Scheduled (hours)	Work Completed (hours)	Remaining Work (hours)	Work Complete (percent)
85,669	60,954	24,715	71%

Legacy system changes: Work completed is tracking closely to planned work. Specific changes are being made to legacy systems to successfully transition each program to GenTax, including disabling certain functionality and building appropriate interfaces.

Major legacy tasks impacting Rollout 1 go-live were completed on June 19, 2014 as scheduled. Adequate resources are available for remaining work, which includes final testing, testing interfaces with GenTax, and cutover activities. The following chart provides an overview of legacy work completed as of July 31, 2014.

LEGACY R1 WORK OVERVIEW: July 31, 2014



Legacy system changes Rollout 1 Work

Work Scheduled (hours)	Work Completed (hours)	Remaining Work (hours)	Work Complete (percent)
2,209	1,956	253	89%

Testing: As of August 8, 2014, the project team is on schedule, having completed 16 of 24 planned weeks of system testing.

- Revenue testers have performed more than 16,000 test scenarios, with more than 99% of the scenarios passing the testers' scrutiny. No identified defects have been deemed serious, and most have been resolved within a few days.
- Testing of Revenue Accounting functionality is behind schedule due to limited availability of business testers. Testing availability will improve after Revenue's financial year-end close is complete on August 22, 2014. The project team has also adjusted the testing approach to include more test conditions in each scenario, which will validate more business functions in a single scenario.
- The project is currently in one of four planned cycles of end-to-end testing for Rollout 1, the fourth of which is scheduled to complete by late October. No problems have been experienced to date.

- Testing of hardware performance satisfied Revenue's requirements. Performance tuning will continue during the four cycles of end-to-end testing.
- Changes to legacy systems have gone through similar testing processes and will receive additional interface testing between now and the go-live date.
- Independent verification and validation testing is also being conducted by CSG Government Solutions, Inc. (CSG), the Quality Assurance (QA) vendor. CSG's bi-weekly test execution and status reports indicate no concerns with test system availability, sampling, observations, procedures, participants, and test results.

Interfaces: Interfaces for Rollout 1 are progressing, but a few interfaces are behind schedule. All interfaces have been identified, and work to prepare the primary interfaces is nearly complete and being tested. For example, Revenue has collaborated with Oregon State Treasury (Treasury) and Department of Administrative Services (DAS) Publishing and Distribution Center to ensure files and data transfer smoothly and continue to process correctly after cutover.

Interfaces – As of August 8, 2014	
Interfaces in scope for Rollout 1	24
Interfaces complete and in testing	14
Interfaces still in development*	10

**Four of these depend on the work of external partners to complete; one may be delayed until after cutover.*

Contract work with other vendors for some front-end interfacing systems they provide is behind schedule and has caused delays in interface testing. The project team is working with Revenue's Processing Center and those vendors to ensure interface changes are completed and data files are provided to sufficiently test data transfer from front-end systems into GenTax prior to cutover. Impacts from the interfaces behind schedule are primarily internal to Revenue, can be managed, and contingency plans are developing. More will be known about this progress by the September update to the E-Board.

Data Conversion: Data cleansing and conversion activities are progressing on schedule:

- Thirty-five types of data anomalies were identified in legacy data to be resolved prior to conversion. Various teams are actively resolving these anomalies. If they cannot resolve all anomalies before conversion, the project team has developed strategies to handle them after conversion.
- To date, seven of eleven planned mock conversions have been conducted as scheduled. Each mock conversion helps the project team refine the planned conversion approaches.

- Revenue staff is comparing data in legacy against data in GenTax to validate that conversion has occurred correctly.
- The project team is developing mechanisms to reconcile the data at cutover, and will become skilled with those mechanisms during each mock conversion.

Data Security / User Security: Revenue is configuring GenTax to ensure the system meets safeguard standards and security requirements, including managing access controls and establishing user access security profiles. To ensure this is accomplished, the project team is partnering with Revenue's Information Security Office.

Training / Change Leadership: Over 370 Revenue staff will receive training designed to prepare them to perform their job duties related to Rollout 1 tax programs with the new system. Training is scheduled to begin in August and conclude the end of October. Eight trainers and ten instructors will provide classes in Salem and in field offices to staff who are affected by Rollout 1.

Organizational change leadership (OCL) efforts are well underway, co-coordinated by a team consisting of DOR project team staff, Sierra-Cedar, Inc. (a contracted organizational change leadership vendor), and Fast Enterprises, LLC (FAST) (the GenTax implementation vendor). The team has developed its OCL strategy; executing the strategy has helped identify at least 10 areas that will experience significant business process changes as a result of Rollout 1. The OCL team is working directly with the affected business units to develop and execute transition plans.

Stakeholder Communication: Many Rollout 1 taxpayers will continue doing business as they have done with DOR before we've changed our systems. Some ancillary services may be different for a few taxpayers, but all the traditional service channels will continue to be in place. Some new functions will be offered to taxpayers, but we're not requiring they be used at this time (e.g. tobacco distributors will be able to order and pay for cigarette stamps online, but may also continue to place orders via mail or in person). For those taxpayers who will see a change, we have developed targeted communication and engagement strategies to highlight changes or new processes.

Simultaneously, we are communicating with our partner stakeholders impacted in Rollout 1, such as Treasury and DAS Publishing and Distribution, to make sure interfaces are built and tested well before go-live.

Communication with internal staff occurs in a variety of formats, including GenTax demonstrations and configuration checkpoints, field office visits, work sessions and meetings, town halls, blogs, director video messages, emails, and an intranet project page.

Risk / Issue Management: The CSR project's Risk and Issue Management Team, along with the Quality Assurance vendor's input, is proactively addressing risks and issues. If risks are triggered, they are being queued up as issues and corrective action plans are initiated to resolve them as quickly as possible. To date, issues have included identifying experienced resources for testing financial configuration, adequately planning and executing of communication strategies, and procuring timely contract changes with vendors for front-end Processing Center systems.

High-priority ongoing risks include:

- Identifying sufficient resources/subject matter knowledge expertise to adequately assist with configuring and testing the new system while still maintaining operations.
- Potential equipment failures in DOR's Processing Center that capture return data that feeds into the new system.
- Accomplishing timely software service changes for various vendors that interface with Revenue's Processing Center.

Risk mitigation strategies and corrective action plans are in place for all identified risks and issues.

Quality Assurance Update: Overall, CSG's assessment supports Revenue's readiness status that the project is on track to meet the Rollout 1 go-live on November 12, 2014.

In their May, June, and July, 2014 monthly quality status reports, CSG has consistently assessed the quality of the project processes and procedures as "green" or "no concerns", indicating:

- The project continues to move forward and is on track per approved plans.
- The project team is appropriately addressing project workload and activities.
- Legacy system tasks are being completed on schedule.
- The risk and issue management process is identifying, addressing, tracking, and reporting risks and issues.
- There are no identified budget concerns, risks, or issues that would interfere with timely go-live at this time.

There are still some areas of concern being monitored by the Program Management Office, project team, and QA services, including:

- Sufficiency of financial/accounting testing resource(s).
- Communications Plan and execution activities.
- Ability to procure/complete system or software service changes to front-end systems.
- OCL planning and engagement activities.

In addition, FAST has conducted quality reviews of its implementation preparations, using eight senior staff not associated with the Oregon project.

Budget Update: As of June 30, 2014, the project anticipates a biennial savings of \$6.5 million (22%) from the 2013–15 legislatively approved budget. At this time, Revenue does not anticipate using \$3 million in contingency funds this biennium, but may need those funds during the 2015–17 biennium. Other contributing factors to the budget variance include lower than anticipated Enterprise Technology Services charges, reduced estimates for hardware and software, and a 10% retention for certain vendor payments until project completion in 2017.

Next Steps—Cutover Planning: Cutover preparations follow similar preparations that FAST has conducted for more than 150 successful, on-time implementations for other revenue agency clients. The CSR project team is actively planning for Rollout 1 cutover, developing detailed checklists for business, technical, and conversion activities. Multiple mock conversions continue to be conducted to identify any problem areas in time to take remedial action. The team is preparing data conversion reconciliation processes, and the methods to provide user support at cutover. The team is adjusting Revenue's business continuity plan, and is also working with ETS on its disaster recovery plan to address the migration from legacy systems to GenTax. The team is also preparing approaches to support taxpayers during the cutover period.

Action Requested

Revenue requests acknowledgement of receipt of this letter providing an update of the Core Systems Replacement project.

Legislation Affected

No legislation is affected.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'James Bucholz', with a large, stylized initial 'J' and a flourish at the end.

James Bucholz, Director
Oregon Department of Revenue