
MEMORANDUM

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To: *General Government Subcommittee*

From: *John Borden, Legislative Fiscal Office*
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Date: March 20, 2013

Subject: *Department of Revenue – SB 5538 – Budget Presentation*

The budget for the Department of Revenue is scheduled to begin public hearings on March 25-28. The hearing date for public testimony is scheduled for March 28.

Materials for the hearing(s) are available through the Oregon Legislative Information System (OLIS) and include the following:

1. Agenda(s)
2. LFO Memorandum [this document]
3. *SB 5538 _LFO Budget Review _DOR*
4. *SB 5538 _DOR Budget Presentation*
5. *SB 5538 _DOR Governor's Budget document*
6. *SB 5538 _CFO Presentation*

Additional information, including past budget notes, legislative actions, and audits for the current biennium are noted below.

2011-13 Budget Notes

Budget Note #1 [HB 5040 (2011)]:

The Department of Revenue is directed to further develop its foundational project planning for the Core Systems Replacement Project. While a significant amount of work has already gone into the initial business case, DOR needs to complete additional foundational work to ensure project readiness prior to seeking final legislative project and funding approval. By January 1, 2012, the Department shall submit a report on the updated foundational project planning documentation, business case, and funding plan to LFO for review and approval. In addition, prior to seeking funding approval, the Department will submit a report on the project to the Joint Legislative Audits and Information Management and Technology Committee for its review and approval. The foundational planning documents and business case updates should include the following:

Foundational Requirements Products

1. Requirements Analysis A detailed requirements document (i.e. functional, nonfunctional, operational, security, data, legal, design, performance, etc.) based upon quality use cases, needs to be developed to clearly define the scope and needs related to replacing DOR's current core application systems and related databases. This document will be a key component of DOR's RFP process
2. Key Strategies and Assumptions Document A document describing the key project strategies, assumptions, and mitigation strategies (i.e. customization strategy, etc.) needs to be developed to help mitigate major risks related to the Core System Replacement Project.
3. Architectural Models A set of high-level conceptual "as-is" and "to-be" architectural (i.e. business, data, information, applications, and security domains) models needs to be developed to help guide COTS product selection. A set of architectural principles needs to be established for each architectural domain.
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4. Business Models A robust "as-is" business model for the major business functions, business rules, application, data, security, interfaces, and infrastructure of DOR's current environment that are going to be replaced by the solution selected for the Core System Replacement Project.
5. Best Practices A more detailed analysis of "IT best practices" and associated "lessons learned" from similar projects in other states needs to be conducted.
6. Legal Analysis A legal analysis of key legal questions/issues that may result from a major reengineering of DOR's core business, application, and data environment.
7. RFP Development, Execution, and Evaluation A detailed RFP based upon a quality set of requirements (#1 above) needs to be developed. Vendor proposals need to be evaluated via a well-defined selection methodology and criteria. Key risks associated with each vendor proposal need to be identified and included in the selection methodology
8. COTS Package Review A review of the results of the RFP to evaluate the most promising candidates among Commercial-Off-The-Shelf (COTS) products needs to be conducted.
9. Conduct Site Visits Formal visits of the higher-ranking COTS package vendors need to be conducted to review results, best practices, implementation approaches, and data conversion strategies.
10. Business Case Update The actual Core Systems Replacement Project Business Case documentation needs to be updated with the findings from items #1-#9 above.

11. High-Level Risk Analysis and Mitigation Plan As part of the update of the Business Case, a detailed risk analysis, plus an associated risk mitigation plan needs to be developed to focus on all major risks that have been identified for the project.

12. Revised High-Level Work Plan and Budget A work plan and budget for the proposed solution (covering development, maintenance, implementation, and operational elements) including a work breakdown structure (WBS), schedule, estimates, resource/staffing plan, and financial plan needs to be developed.

Budget Note #2 [HB 5040 (2011)]:

The Subcommittee expects the Agency Management Team and Strategic Planning Division (SPD) at the Department of Revenue to demonstrate its leadership and effectiveness across all aspects of the Department of Revenue's programs; not only those supporting the core systems replacement project. Accordingly, the Department is directed to report their progress to the Joint Committee on Ways and Means during the 2012 Legislative Session on the following:

1. Results from actions led by SPD to improve the agency's business practices and processes. What activities or steps have been taken to make the agency more effective and efficient? What process improvement activities have you accomplished? What training and tools have been implemented to continually improve the organization? What metrics have informed operational decisions to improve efficiency and effectiveness of the major programs?
2. Enhancing and improving voluntary compliance which includes strategies to address tax gap. How is SPD guiding the agency to develop strategic plans, tools, and measures to identify the tax gap? What is SPD doing to identify reasons for noncompliance and taxpayer trends? What measures are in place to measure the gap and how agency activities influence it? What are the next steps for SPD in this area? How is SPD implementing the lessons learned in the agency?
3. Efforts to ensure that frontline staff are being listened to and are engaging in the agency's strategic plan. What deliverables from frontline staff and managers are implemented on time and within budget? What are employee survey results telling agency management? What training has SPD and HR given managers to improve employee engagement? Is it reflected in the performance management system?

Budget Note #3 [HB 5040 (2011)]:

The Department of Revenue is directed to work with the Office of Economic Analysis and the Legislative Revenue Office to develop a methodology to determine what portions of the state's personal and corporate income tax receipts are attributable to the enforcement work (audit and collection efforts) performed at the Department of Revenue. The intent is to quantify the return on investments made in the agency's enforcement resources and to use that information to help inform decisions about potential future investments. In addition, a baseline calculation for enforcement efforts can be used to delineate between enforcement revenues and revenues from voluntary collections within the context of the quarterly revenue forecast. Prior to formally adopting a methodology, the Department will report on its proposed methodology to the House and Senate Revenue Committees (either interim or session). In addition, the Department will report to the Joint Committee on Ways and Means during the 2012 Legislative

Session on the methodology and a plan for integrating it into budget development for the 2013-15 biennium.

Budget Note #4 [HB 5040 (2011)]:

The Department of Revenue together with Oregon Housing and Community Services and the Department of Human Services shall convene a workgroup to review and report on the Elderly Rental Assistance and the Non-profit Homes for the Elderly programs. The overall charge of the workgroup is to provide the Legislature enough information to determine whether or how the programs should be continued beyond the 2011-13 biennium.

The review and report should include an analysis of each program's purpose and performance outcomes, along with current and future funding requirements. The work group should also identify to what extent other state or federal services to the elderly overlap or duplicate these two programs.

The work group shall develop a range of service delivery and funding options for the programs. These should include, but are not limited to, complete program elimination, consolidation with other existing programs, or maintenance of the current structure.

The agencies shall provide a report to the Joint Committee on Ways and Means during the February 2012 Legislative Session.

2011-13 Emergency Board Actions

- Item #49 –September 2012 - Emergency Board allocate \$2.6 million from the special purpose appropriation to the Department of Revenue for the Elderly Rental Assistance and Nonprofit Housing Programs.
- Item #50 – September 2012 - acknowledge receipt of a Department of Revenue report on its Technology and Process Reengineering project.

2012 Legislative Actions

- SB 5701 (2012) – The Legislature approved a decrease of \$48,504 General Fund to reflect savings in State Government Service Charges from a change in the state's e-government funding model. To capture the agency's share of the statewide effort to restructure state government business operations and management of agency programs, personal services were reduced by \$1,126,687 General Fund.
- 2011-13 budget notes reports related to HB 5040.

2011-13 Secretary of State Audits

- Revenue, Department of: Selected Financial Accounts For the Year Ended June 30, 2011 Management Letter No. 150-2012-01-01 March 2012
- Revenue, Department of: Filing Enforcement and Collections Recommendations Follow-up Report No. 2011-17 (pdf file size: 228 kb) Date: August 2011
Report 2011-17 is a follow up to report 2010-20A Department of Revenue: Strategies for Increasing Personal Income Tax Compliance and Revenue Collections.

- Revenue, Department of: Computer Controls Ensured Accurate Processing of Tax Returns Report No. 2011-16 (pdf file size: 215 kb) Date: July 2011

Please let me know if you need any additional information.

Thank you.