

## Analysis

### Department of Revenue

#### Report on Processing Center Modernization Project

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**Analyst:** John Borden

**Request:** Acknowledge receipt of a report on Processing Center Modernization Project.

**Recommendation:** Acknowledge receipt of the report.

**Analysis:** The Department of Revenue (DOR) has submitted a budget note report on DOR's Processing Modernization Project. The Legislature in 2017 provided the following instruction to the agency and the Department of Administrative Services – Office of the State Chief Information Officer (OSCIO):

Budget Note (SB 5535 - Chapter 601, Oregon Laws 2017): The Department of Revenue, under the Direction of the Department of Administrative Services – Office of the State Chief Information Officer, is directed to re-initiate the Processing Center Modernization Project. The Department of Revenue and the Department of Administrative Services – Office of the State Chief Information Officer are to jointly report the status of the project to the Joint Legislative Committee on Information Management and Technology and the Joint Committee on Ways and Means during the Legislative Session in 2018.

In June of 2014, DOR initiated a "Processing Center System [Lifecycle] Modernization" project (PCL). The project was a commercial-off-the-shelf product (COTS) whose intent was to move DOR from 5% to 100% imaging of all incoming paper documents and, more importantly, provide for electronic imaging in order to process tax return and payment data through the Core Systems Replacement project (CSR), the recently implemented revenue management application (GENTAX).

The original PCL project was not part of a specific agency budget request and the project was not reviewed or approved by the Legislature. Funding came from the agency's base budget. The original project was to have been fully completed by January 2017 at an implementation cost of \$1.3 million. DOR contracted with a project management firm to manage the PCL project. The project was not overseen by an independent quality assurance oversight because such oversight was not required by OSCIO policy.

After reporting to the Emergency Board in November of 2015 that the project was on schedule, within scope, and on budget, the PCL project was later terminated by DOR in the fall of 2016 as the PCL project was unable to be implemented. The project suffered from a myriad of project management, vendor, technology, and oversight issues. There was also no contingency plan available leading to essentially what DOR calls "a crisis situation" for the 2016 tax processing season. DOR then had to move to a mostly manual processing of returns, which necessitated diverting key agency resources, including revenue generating staff, from other parts of the agency.

Due to the critical business need, the Legislature in 2017 approved \$1.5 million of funding to re-initiate this project, which DOR has renamed the "Processing Center Modernization project (PCM)."

The budget note report on PCM submitted by DOR was sought to allay concern that PCM will not repeat the mistakes of PCL project. For instance, PCM, after completing an after-action report on PCL and visiting another state implementer, is now adhering to the OCSIO Stage Gate process, recently hired an independent quality assurance vendor (QA), is adhering to the state's procurement process, has an internally dedicated and certified project manager, is providing internal and external stakeholders with regular status reports, has initiated management staffing changes, and has a governance structure in place. DOR also reports having a contingency plan in place for the project.

The PCM remains a COTS product albeit from a new, more experienced vendor. The scheduled roll out will be in three phases with each phase concluding in December 2018 (corporate tax returns and all paper payment-types), February 2020 (personal income tax; self-employment tax); and then February 2021 (small miscellaneous tax programs). To miss one of these off-tax season implementation windows would mean that the overall project schedule would be delayed a year for each subsequent rollout.

Over the next three biennia, the project is expected to cost \$1.7 million, which includes: software (\$222,564); vendor implementation (\$543,315); software maintenance (\$202,508); independent quality assurance vendor (\$275,850); and State Data Center charges (\$460,458). The project is funded 92% General Fund and 8% Other Funds. While approved for \$1.5 million this biennium, the project only anticipates spending \$805,244 for a savings of \$694,756. In order to true-up the PCM budget, the budgetary savings are slated to be captured in the 2018 session omnibus budget measure. Additional funding of \$618,845 is estimated to be needed during the 2019-21 biennium to complete project implementation followed by successive biennia of an estimated \$280,606 for ongoing maintenance and operation costs.

PCM is reported by DOR to be within scope and on schedule. There is, however, some uncertainty surrounding this statement. A QA vendor was only recently engaged and must now go back and produce quality assurance reviews on key foundational documents and the vendor contract, even though a vendor contract has been consummated. Although unlikely, this could cause a delay. Additionally, the Legislature in 2017 enacted HB 2017, a comprehensive transportation initiative to fund a long-term transportation program. This legislation directly impacts the PCM project for which the report made no mention. DOR's original request for HB 2017 funding (in HB 5045) nor the agency's supplemental request (January 2018), included a request for PCM project funding, however, there is an estimated impact of approximately \$50,000.

Other than the HB 2017 oversight, DOR's report is a thorough analysis of the status of the PCM project. The report clearly demonstrates that the re-initiation of the project is being managed in a far more disciplined approach and has sought to address, point-by-point, the failing of the original project. DOR should be prepared to report on the progress of the project during the 2019-21 legislative budget review process.

OCSIO oversight of this project is vital to ensuring that the implementation of this project is successful. No explanation was offered as to why OCSIO failed to jointly participate in the submission of this report, as directed by the budget note.

The Legislative Fiscal Office recommends acknowledging receipt of the report.