Analysis

Department of Revenue

Report on Core Systems Replacement Project

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

Recommendation: Acknowledge receipt of the report.

Analysis: The Department of Revenue (DOR) has submitted a budget note report on DOR's Core Systems Replacement 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 and the Department of Administrative Services – Office of the State Chief Information Officer, are to jointly report on the status of the Core Systems Replacement project, and any related Secretary of State audits, to both the Interim Joint Legislative Committee on Information Management and Technology and the Interim Joint Committee on Ways and Means during Legislative Days in September and November of 2017, and to the Joint Legislative Committee on Information Management and Technology and the Joint Committee on Ways and Means during the Legislative session in 2018.

Executive Summary

The Core Systems Replacement project (CSR) and the implementation of a new, state-of-the-art revenue management system has been a needed and important investment for Oregon. Adoption of the new application, a major paradigm shift for DOR, has been challenging, but something the agency has to-date managed successfully. While the CSR project has been concluded, and the core GENTAX application implemented, more work of a critical nature remains to be accomplished before the application can be optimized. The project highlights the challenges between implementing an information technology project and integrating the technology into the day-to-day business operations of an agency.

Outstanding Questions

This analysis will attempt to answer five outstanding questions surrounding the CSR project:
1. Has the project been completed?
2. Has the system been optimally configured to best practices?
3. Has GENTAX been successfully integrated into the day-to-day business operations of DOR?
4. Are additional costs anticipated?
5. What value has the State of Oregon received, or is anticipated to receive, from the project?

Background

CSR is being implemented by DOR using a commercial-off-the-shelf (COTS) product (GENTAX) to provide for an integrated system for state-wide tax revenue collection and revenue management. The agency adopted a "no customization" strategy, to the extent possible, and used an iterative

COTS implementation approach to configure GENTAX. DOR's cognizant decision, to the agency's credit, to remain fully connected to the GENTAX COTS product means that as GENTAX goes through successive upgrades there will be no need for costly reconnections. The primary vendor contract was deliverables-based.

GENTAX was rolled out in a deliberative four-phase approach. The Legislature did, however, direct that the personal income tax phase be moved from the first to a subsequent phase so as to allow for a more gradual introduction of GENTAX. In general terms, the scope of the project was the fulfillment of over 1,200 individual requirements identified by DOR. DOR was able to rely upon the implementation experience of approximately 22 other states that use the GENTAX product.

Originally, DOR asked to fund CSR using a "benefits-based" approach, which would have diverted a portion of the General Fund revenue stream into an account to pay for project costs. Due to an inability to correlate new or additional tax revenue generation with GENTAX, the Legislature instead funded project implementation with Article XI bonding and General Fund. Debt Service is funded with General Fund and some Other Funds.

The Legislature will spend an estimated $69.7 million on implementing the first four phases of GENTAX, including debt service on the issued bonds. CSR was fully funded by the Legislature for each phase of the project, including funding for: (a) the GENTAX vendor product (FAST Enterprises)($27 million); (b) external project manager ($801,492); (c) independent quality assurance vendor ($2.8 million); (d) organizational change leadership vendor ($1.8 million); (e) additional DOR staffing/facilities rental ($17.3 million); (f) hardware/software ($464,846), (g) ongoing operations and maintenance costs ($5.5 million); and Department of Administrative Services - State Data Center charges ($2.9 million). A $3 million contingency funded by the Legislature never had to be utilized and was released back to the project during Phase IV to fund ordinary implementation costs. These figures include $7.3 million in planning funding.

1. **Has the project been completed?**
DOR's CSR report states that "Revenue has now successfully *completed* [emphasis added] all four rollouts on schedule and underbudget" and the project has been "successfully implemented." There are no outstanding contract amendments related to the first four phases of the project and on February 1, 2018, DOR accepted final delivery of GENTAX from the FAST Enterprises vendor. "GenTax substantially meets the agreed upon scope requirements. The System has passed Functional Verification Acceptance conducted during each of the four Rollout implementations," according to DOR's CSR final acceptance document. Reporting on the CSR project to the Legislature, which has been extensive, has failed to provide a complete and accurate picture of the project's true status by focusing narrowly on only the information technology aspect of the implementation.

The "completion" and "successful implementation" of CSR is nuanced in several important regards: (a) the project has been completed strictly in terms of the FAST Enterprises GENTAX contract; (b) there will always be the need for routine application upgrades by the FAST Enterprises vendor; (c) GENTAX will need to be modified based on actions of the Legislature and administrative actions of the agency; and (d) there is a critical distinction between implementing the GENTAX product from the information technology perspective and integrating the product into the workflows of the agency, discussed in more detail below. With this said, the **core** functionality of the GENTAX application has been implemented throughout the first four phases of the original project and is operational.

In regard to legislative changes unanticipated in the original CSR business case (Phases I-IV), subsequent legislative changes have occurred which impacted the project, including: (a) recreational marijuana taxes ($500,000 for implementation and $100,000 per biennium of ongoing maintenance and operations); (b) the comprehensive transportation initiative to fund a long-term transportation program ($2.3 million for implementation and $515,000 per biennium of ongoing maintenance and operations); and the centralization of debt collection activity in state government within DOR ($600,000 for implementation and no estimate for ongoing maintenance and operations costs). Recent federal tax reform will also result in modifications to GENTAX as it relates to both normal application upgrades and Oregon legislative decisions on tax "connection" or "disconnection" to federal tax law.

2. Has the system been optimally configured for best practices?

There appears to be evidence that GENTAX remains to be fully and optimally configured. While the core GENTAX application has been implemented, there remains, according to DOR, a large number (in the hundreds) of outstanding and backlogged service requests related to application changes and enhancements. Again, these are changes associated with the functionality of GENTAX and not the aforementioned legislative changes. DOR states that "There are many things that we still have an opportunity to take advantage of that we chose not to implement for various reasons; understanding of impact, resource and timing." However, opportunity does present itself, as with any new technology, to fully understand and exploit enhanced functionality of the new application.

3. Has GENTAX been successfully integrated into the day-to-day business operations of the agency?

The best answer to whether GENTAX has been integrated into the day-to-day business operations of the agency is that this is a work-in-progress and will take time. While DOR has been successfully managing the adoption of the project, staff are having to learn and adapt to a new revenue management platform and seek to have issues with the platform resolved in a timely manner, which as noted, are backlogged. This has also resulted in a backlog of work within the various tax programs. In another report to the Legislature in 2018 on effective taxpayer assistance, GENTAX itself has created a host of customer service issues which DOR is struggling to work through and remedy. One question is why, after spending $1.8 million for an organizational change leadership contract, was DOR not better positioned for the workforce impact of GENTAX?

4. Are additional costs anticipated?

Post-implementation costs for GENTAX are significant, likely to increase into the future, and will be critical to the underlying success of GENTAX. To a limited extent, this was acknowledged by the Legislature in 2017, which provided an additional $3.6 million for GENTAX software maintenance, support, and upgrades as well as for onsite GENTAX staff. There may be the need to extend the GENTAX supplemental vendor support/assistance agreement into the 2019-21 biennium. Cost for other than routine operation and maintenance may come as a surprise to the Legislature.

After the Legislative session, and upon the completion of Phase-IV of the project, DOR no longer has funding available for internal DOR staff support of GENTAX. DOR has submitted a $1.8 million request to the Legislature in 2018 for six additional business representative positions and two trainer positions. The agency proposes to self-finance this request by either reclassifying existing positions or using funding from vacant positions. DOR views these requested positions as of the highest priority due to the fact that these positions are needed as the key interface to resolve GENTAX issues

by serving as an interface between operating programs and GENTAX and DOR information technology staff. The impact of the transition from implementation to production support has been underestimated by the agency, including the impact GENTAX is having on external customer service, as noted.

Also, during the legislative session in 2018 DOR requested a substantial position reconciliation adjustment, portions of which include classification changes related to the GENTAX implementation. Further, such requests are likely over the course of the next several biennia as DOR seeks to right-size positions designed for legacy system duties and responsibilities for the GENTAX environment.

There is particular concern centered around whether DOR's internal information technology staff are able to move from a legacy operations and maintenance support role into a GENTAX operations and maintenance support role. DOR may, for some time, be dependent upon GENTAX contract staff until internal proficiency and technical skillsets are developed and DOR can assume greater control of the GENTAX application.

With the conclusion of the implementation, post-implementation costs become non-bondable expenditures that must be predominately funded with General Fund.

5. What value has the State of Oregon received, or anticipated to received, from project?
In order to answer the question of what value GENTAX brings to Oregon, the underlying rationale needs to be revisited. GENTAX was never conceived as a vehicle for revenue enhancement. GENTAX is, for now, best viewed as a defense of Oregon's current service level tax revenue stream(s) rather than a mechanism to enhance tax revenues. This is evidenced by the fact that no revenue impact statement was associated with the implementation of the GENTAX application. Secondarily, the post-implementation phase of GENTAX guaranteed no administrative savings would be achieved, which appears to be the case.

With that background, GENTAX has been a critically needed investment for Oregon bringing tax administration into the 21st century and for providing a mechanism for continued upgrading to current technology.

There continues to be some concern about GENTAX tax data availability, and perhaps reliability, for revenue forecasting and tax analysis. Specifically, DOR's ability to provide the Legislative Revenue Office (LRO) and the Department of Administrative Services – Office of Economic Analysis (OEA) with timely and unfettered access to GENTAX tax data for revenue forecasting and tax analysis. Of note is that other states that have implemented GENTAX have also been struggling with this very issue. This concern was originally raised by the Interim Joint Committee on Ways and Means (September 2015) followed by a DOR report to the Emergency Board (May 2016), in which the CSR's independent quality assurance vendor confirmed the existence of data issues. At that time, DOR stated that the agency was in the final stages of completing a formal action plan to resolve such issues, both internally for its Research Section, as well as externally for LRO and OEA. Whether the issues have been fully resolved remains an unanswered question. Data issues have been placing inordinate stress on DOR's Research Section, whose job is to accurately assemble, interpret, and disseminate revenue data for primarily external consumption. Augmentation of DOR's Research Section staff, but with a more internal focus on GENTAX data and impacts to DOR operations, is a needed investment.

Secretary of State Audit of CSR

The Secretary of State (SOS) is in the final stages of completing a very narrowly tailored information technology audit limited to the financial processing of GENTAX for personal income tax, corporations, and withholdings. The audit is slated to be released in late February of 2018. The Legislative Fiscal Office recommends that the Joint Legislative Audit Committee consider directing the SOS Audits Division to conduct a thorough information technology and financial audit of the CSR implementation, as such would be a benefit not only to DOR but other state agencies.

Department of Administrative Services – Office of the State Chief Information Officer
OSCIO oversight of this project has been consistent through implementation. No explanation was offered as to why OCSIO failed to jointly participate in the submission of this report, as directed by the budget note.

Recommendation
The Legislative Fiscal Office recommends acknowledging receipt of the report.