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Budget Information Report

Oregon Employment Department Information Technology Modernization

This Budget Information Report provides an overview of the history, issues, and decisions surrounding efforts to modernize unemployment insurance (UI) information technology infrastructure at the Oregon Employment Department (OED). A combination of circumstances – including failures in information technology (IT) oversight and project delivery, leadership and management turnover, agency reorganization and staffing issues, the state economic environment, and new state IT processes and procedures – have played a role in the timing of decisions and investments to modernize OED’s UI information technology systems.

2009-11 Biennium

OED’s Oregon Benefit Information System was developed in 1993 as a mainframe system, to track and process payments related to the administration of UI benefits. During the 2009-11 biennium in the midst of the Great Recession, Oregon experienced high levels of unemployment. OED administered UI, Emergency Unemployment Compensation, and benefit extensions to qualifying unemployed Oregonians, as well as job training programs financed by federal funds extended under the American Recovery and Reinvestment Act (ARRA). Legislative changes enacted during this biennium ensured that Oregon’s benefit eligibility requirements were in compliance with the federal unemployment insurance tax act, and implemented an alternative base year calculation of benefits which effectively increased the number of Oregonians eligible for UI benefits. The adoption of the alternative base year resulted in a one-time payment of additional federal funding to Oregon in 2009, totaling \$85.6 million for unemployment insurance administration expenses (these funds are commonly referred to as “modernization funds”). Because federal administrative grant funding has never been sufficient to cover 100% of the cost of agency administration of UI tax and benefit administration, the Employment Department deposited these funds into the UI Trust Fund account for later use.

During this period, OED initiated a series of IT projects ranging from approximately \$250,000 to \$7,000,000, including:

- UI Service Center Consolidation
- UI Adjudication System
- Identity and Access Management
- Enterprise Business Intelligence Software Suite
- Enterprise Data Warehouse for Unemployment Insurance
- Office of Administrative Hearings Case Management System Project

- Enterprise Document Management System Upgrade
- OTTER Online (later called Oregon Payroll Reporting System)

2011-13 Biennium

Workload projections for UI benefit administration were still high in 2011, as Oregon's economic recovery was slow. Shortcomings of the agency's benefit payment system were pointed out in a 2012 Secretary of State audit, including the difficulty in updating the system to accommodate federal rule and eligibility changes and the need for manual processes for more complicated claims.¹ The age and complexity of the system, as well as a lack of timely determinations, contributed to \$56 million in non-fraud "overpayments" of benefits to Oregonians for period of nearly a year between 2010 and 2011.

Despite these findings, OED's budget request included expenditure limitation for other agency information technology improvements begun in the previous biennium but not yet completed, rather than for the UI Benefit Information System. By early to mid-2012, several of those projects were experiencing significant challenges: The Enterprise Data Warehouse project had been closed, the UI Adjudication System project had been placed on hold, and the Identity and Access Management system project was stopped following a third-party review². By late 2012 to early 2013, the Enterprise Document Management System and Oregon Payroll Reporting System projects were experiencing significant schedule delays and scope changes.

In July 2012, the agency Chief Information Officer resigned at or near the completion of an OED internal audit of the agency's IT organization³. Among other things, the audit found the agency lacked an up-to-date IT strategic plan and that the supervisory structure and authority over the IT function throughout the agency was deficient. The agency was structured in such a way that IT projects and those that worked on them were decentralized, into the various agency divisions for which the projects would be undertaken and completed. This resulted in multiple projects being undertaken simultaneously, without clear prioritization or communication. This organizational structure likely contributed to multiple project delays and cost overruns. Around the same time, the State Chief Information Officer (CIO) found OED out of compliance with the Statewide IT investment review and approval policy, which required executive branch agencies to request State CIO approval to proceed with any IT project with an expected cost exceeding \$150,000; many OED IT projects were active and underway without prior notification to or approval from the State CIO to proceed.

The agency's budget request for the next biennium was released in the summer of 2012. It sought funding and position authority related to a number of smaller projects to support various division operations, including child care provider reporting, call center technology improvements, additional personnel to support IT systems, and planning dollars to replace the agency's database to match job seekers with available job openings. Again, no request was made to begin planning for replacement of the UI tax and benefit system.

A change to agency leadership ensued in the summer of 2013, resulting in the appointment of an interim director and deputy director.⁴

¹ <http://records.sos.state.or.us/ORSOSWebDrawer/Recordpdf/2244155>

² <https://www.documentcloud.org/documents/713876-online-business-systems-iam-assessment-january.html>

³ <https://www.documentcloud.org/documents/713874-oed-internal-audit-fy-2012-redacted.html>

⁴ https://www.oregonlive.com/politics/2013/06/oregon_employment_department_c.html

2013-15 Biennium

Other senior management changes swiftly followed after internal reviews by the Department of Administrative Services' Chief Operations Officer chronicled hostility and dysfunction within the agency⁵, and agency turnover continued to be high. Given that IT management challenges were by this time well documented, the 2013-15 legislatively adopted budget reflected decisions that declined to fund the majority of the agency's IT-related requests.

A new permanent OED director was appointed in October 2013.

Elsewhere in state government, the Oregon Health Insurance Exchange System (aka CoverOregon) experienced a highly publicized and incredibly costly failure exceeding \$300,000,000⁶. Although the Oregon Health Authority was responsible for project management and implementation of this project, its failure further heightened calls for increased executive branch, legislative branch, and independent third-party quality assurance oversight of agency planning and management of all major IT projects.

Statewide personnel and policy changes also impacted the processes by which state agencies could undertake larger IT projects. A new State CIO was appointed by Governor Kitzhaber in January 2014. In May 2014, the State CIO and the Legislative Fiscal Office (LFO) partnered to create a Joint Stage Gate Review Process to enhance the rigor and standardized criteria by which agency IT projects (including those initiated by OED) would be reviewed, monitored, and controlled as the projects moved through specific phases in the project lifecycle (e.g., Initiation, Planning, Execution, and Closure).

While the worst of the recession seemed over, economic recovery for job seekers was slow, with many Oregonians seeking training and job opportunities. As federal revenue for agency operations began to decline in the aftermath of the recession, OED's director began concentrating on internal reorganization and service streamlining in an effort to deliver services more cost effectively, in part by leveraging available federal worker training funds. Another management initiative involved OED securing professional assistance in creating a strategic IT operations plan. The plan recommended surveying the skills of existing IT employees; centralizing IT within the agency so that project prioritization and resource needs could be better communicated and monitored; and consolidating UI call centers. Management and employee turnover continued within the agency, which included the interim appointment of a new OED Chief Information Officer in February 2014.

Among other challenges, OED experienced a major IT security breach in the fall of 2014 affecting the confidential records of more than 800,000 Oregonians.⁷ It was against this backdrop that OED established its budget priorities for the 2015-17 biennium.

2015-17 Biennium

In February 2015, Governor Kitzhaber resigned and Governor Brown took office.

⁵ http://media.oregonlive.com/money_impact/other/OED%20Report%2007%2003%2013.pdf

⁶ https://www.oregonlive.com/health/2013/12/oregon_health_exchange_technol.html

⁷ <https://katu.com/news/local/oregon-employment-department-notifies-customers-of-data-breach>

The 2015-17 legislatively adopted budget for OED included \$3,046,026 in expenditure limitation and four positions to begin planning for the replacement of key OED IT systems, funded by the “modernization” funds received from the Department of Labor in 2009. Funding was allocated per the “stage gate review” process adopted in 2014 that incorporated incremental resource allocation along with oversight by the State CIO and Legislative Fiscal Office in an effort to control scope, monitor progress, and ensure that large IT projects were appropriately planned and well documented. In addition to the budget request, the agency would shift existing “base budget” resources to the project, totaling \$986,633. The funding was intended to enable the agency to devote personnel to project management, analysis for project justification, risk analysis, a preliminary scope of work, and identification of affected stakeholders. The legislatively adopted budget also centralized administrative functions under one division, including the Director’s Office, human resources, legislative affairs and communications, and Information Technology.

Following the close of the 2015 legislative session, the OED CIO retired and a July 2015 interim CIO appointment of his successor was made permanent in November 2015.

In December 2015, another Secretary of State audit of the UI tax and benefit system documented information security concerns, management issues related to access and programming of the aging UI tax and benefit technologies (many of which were also documented in the audit of 2012), and called for their replacement.⁸ Another agency leadership change quickly followed: in January 2016, the director of the Employment Department was fired by Governor Brown⁹ and an interim director (Kay Erickson) was appointed. Further turnover ensued¹⁰ and new managers were identified, which had implications for the progress of the modernization effort that was funded by the Legislature. By biennium’s end, the agency had spent just \$1.2 million of the \$4.3 million budgeted for the modernization effort.

2017-19 Biennium

By 2017, the Employment Department had put a dedicated project team in place to further the modernization effort. The agency began a more in-depth analysis of its business processes and needs, as well as its capacity, and narrowed the focus of “IT Modernization” specifically to modernization of the primary UI tax and benefit functions. The agency made use of expertise in the National Association of State Workforce Agencies Information Technology Support Center to evaluate options being considered by other states that had recently completed or initiated similar improvements. The legislatively adopted budget included approval of additional expenditure limitation totaling \$4,682,314, with agency “base budget” resources directed toward the project of \$688,247 and 18 positions (13.95 FTE). Deliverables associated with this funding included completion of the agency’s feasibility study, a detailed business case, risk assessment, and project management plans; procurement statements of work, and vendor selection and contracting; data analysis, management and cleansing; and independent quality assurance review and oversight as required by the Joint State CIO/LFO stage gate review process. Procurement costs for the replacement solution could not be forecast with certainty, so the agency made the decision to fund part of its planned work using other sources of administrative revenue. By biennium’s end, actual expenditures included \$1.4 million from the

⁸ <http://records.sos.state.or.us/ORSOSWebDrawer/Recordpdf/4469256>

⁹ https://www.oregonlive.com/politics/2016/01/kate_brown_replaces_head_of_em.html

¹⁰ <https://pamplinmedia.com/pt/9-news/293974-171390-investigation-cleared-fired-employment-department-managers-of-wrongdoing>

Supplemental Employment Department Administrative Fund, \$0.1 million from UI Penalty and Interest funds, and \$2 million from Modernization funds. Although the \$3.6 million in actual expenditures was well below the budgeted amount, significant work on the modernization program was completed. OED completed, developed, or submitted the following during the 2017-19 biennium:

- Completed feasibility study and initial project management documents (January 2018)
- Received Stage Gate 1 endorsement from the State CIO for the Modernization Program (January 2018)
- Initiated the Unemployment Insurance Tax and Benefits Replacement project (April 2018)
- Updated charter(s) and foundational project management documents (December 2018)
- Updated the business case and solution requirements for the UI project (February 2019)
- Received Stage Gate 2 endorsement from the State CIO for the UI project (February 2019)
- Issued an intent to award a contract for Independent Quality Management Services (March 2019)

2019-21 Biennium

By mid-2019, the Employment Department had finished its business case and technical requirements for UI systems replacement; completed the first phase of a facilities build-out and moved operations into the space; had governance plans and schedules in place; finalized and validated documentation of current-state processes and systems inventory; procured an independent quality management services vendor and initiated services; hired additional management and technical positions (though the team members continue to turn over); and put together a Request for Proposal for a solution vendor after examining the solutions implemented or procured by unemployment insurance divisions in other states.

At the time of its 2019 session budget hearing, OED had received Stage Gate 2 endorsement from the State CIO, clearing the way for legislative approval to proceed with the next phase of the project, including contracting with the vendor and beginning procurement. The legislatively adopted budget included resources for staff support to the project as the solution (once selected) is implemented, and is planned to be funded from the Supplemental Employment Department Administrative Fund (SEDAF) and Penalty and Interest earnings, totaling \$19.9 million: \$13.7 million and another 37 permanent positions were included in a policy option package, to augment the 18 existing positions and \$6.3 million in base budget expenditures. This budget was assumed to enable OED to maintain its existing system while simultaneously providing the person-power to implement and test the new one, so that the changeover, when it comes, goes smoothly. Capital Outlay for the procurement of a solution itself will be requested when a vendor has been selected and the cost is known, though it was estimated at between \$80 million and \$123 million, with a completion date of 2023. The majority of those costs are assumed as coming from the UI Modernization dollars, the balance of which stands at \$81.7 million.

Importantly, in 2019 the Legislature passed HB 2005, creating a Paid Family and Medical Leave Insurance (PFMLI) Program to be implemented and administered by the Employment Department. OED was directed via budget note to hire a vendor to conduct an agency-wide risk assessment to evaluate whether and how it can successfully deliver both the UI IT modernization and create a new Paid Family and Medical Leave benefit program (and business processes and information technology infrastructure to support it) without compromising

services to Oregonians or daily operations. That risk assessment is underway and will soon be finalized.¹¹ One option OED may consider involves the possible inclusion (merging) of the PFML IT component within the UI Tax and Benefits project. Prior to making a decision, OED must complete and submit to the State CIO and the Legislative Fiscal Office a robust analysis of cost and schedule impacts, and clearly identify the risks and benefits associated with pursuing this course of action.

The agency provided a UI project update to the Joint Legislative Committee on Information Management and Technology in February 2020¹², indicating that it planned to complete the following: recruit and hire approved positions; select a vendor, negotiate the contract, and onboard the vendor team; seek Stage Gate 3 endorsement from the State CIO and LFO; and carry out detailed planning for the execution phase, anticipated to begin in August 2020.

Then, in March 2020, circumstances radically altered OED operations. Since that time, OED has attempted to process an unprecedented number of UI claims due to the COVID-19 pandemic and deal with statewide economic shutdowns which began March 12, 2020. The number of unemployment insurance initial claims hit a record 92,700 in early April according to the Department of Administrative Services Office of Economic Analysis¹³, which vastly surpassed the highest number of initial claims of 20,000 that were received during the height of the recession in 2009. By the end of April, Oregon Unemployment numbers were approximately double that of the Great Recession.¹⁴ An “all hands on deck” approach was instituted to concentrate on servicing UI claims, reprogramming the existing system to accommodate the eligibility and benefit specifications of the federal pandemic economic relief CARES act, fixing error messages, and quadrupling the number of claims processing staff to eliminate the backlog of claimants. It should be noted that Oregon is not alone in its struggle to get benefits to claimants in a timely way; states across the nation have reported unprecedented numbers of UI claims¹⁵, with many struggling to process those claims on outdated computer systems, dealing with jammed phone lines, and adding workers to handle the surge.¹⁶ This suggests that even if OED had modernized its UI systems sooner, it still would have been unprepared for the number and complexity of claims pouring in related to the COVID-19 pandemic.

This massive economic and organizational disruption and resulting delays in claims processing resulted in yet another turnover of the agency director. On May 31, 2020, Kay Erickson resigned after repeated calls for change at the Department¹⁷. In the month prior, OED had indicated it was close to proceeding with vendor selection; however, it’s unknown whether it has the organizational capacity and program and technical staff availability to provide the necessary attention and support to a UI solutions vendor in the present circumstances. Per the OED Employment Modernization Team’s March 2020 status report, the agency has expended

¹¹ <https://olis.oregonlegislature.gov/liz/2020R1/Downloads/CommitteeMeetingDocument/217784>

¹² <https://olis.oregonlegislature.gov/liz/2020R1/Downloads/CommitteeMeetingDocument/217786>

¹³ <https://oregoneconomicanalysis.com/2020/04/03/covid-19-initial-claims-sectors-and-unemployment/>

¹⁴ <https://www.statesmanjournal.com/story/news/2020/04/30/oregon-unemployment-claims-twice-during-great-recession/3057236001/>

¹⁵ <https://www.nbcnews.com/business/economy/unemployment-claims-state-see-how-covid-19-has-destroyed-job-n1183686>

¹⁶ <https://www.politico.com/news/2020/04/01/unemployed-workers-benefits-coronavirus-159192> ; <https://www.cnn.com/2020/04/02/state-unemployment-offices-scramble-to-handle-jobless-claims-surge.html>

¹⁷ <https://www.statesmanjournal.com/story/news/2020/05/31/oregon-employment-director-kay-erickson-resigns-kate-brown-request/5301621002/>

approximately \$7,309,611 of the \$19,953,564 funds authorized for expenditure to date. The report indicates that, “the overall project rating remains red due to the number of high risks, issues, and continued impacts on schedule and quality due to reduced resource capacity and shifting priorities related to the COVID pandemic.” Moreover, OED’s own project status report indicates that, “Resource-related risks and issues continue to impact quality, schedule, and ability to complete work. Two additional program staff announced their resignation in March. Many Modernization resources, particularly the UI business team, have been temporarily reassigned to assist agency operations.” Further, the agency’s independent quality management services vendor, CSG Government Solutions, indicated in a February 2020 report (issued April 10) that the health status rating for the UI Modernization project changed from yellow (medium) to red (high) risk during this reporting period. The report cited, among other risks, an increase in Modernization Team turnover due to burnout or stressful conditions.

In the last several months there have been at least four departures of key team members, including the project manager (May 1, 2020) and the modernization program director (July 1, 2020). Although a number of these positions have now been filled, the vacancies and time required to on-board new hires have impacted the project’s ability to complete tasks as planned and has required the team to reassign activities, adjust due dates, and re-prioritize remediation actions.

Despite having available resources to embark on a modernization project for Unemployment Insurance taxes and claims, the Employment Department has not yet had the necessary combination of organizational stability and sustained professional and technical capacity needed to ensure project success. The scale and complexity of the needed improvements demand a level of sustained attention and effort that circumstances have, so far, failed to allow.