
MEMORANDUM

Legislative Fiscal Office
900 Court St. NE, Room H-178
Salem, Oregon 97301
Phone 503-986-1828
FAX 503-373-7807

To: Joint Legislative Committee on Information Management and Technology
From: Sean McSpaden, Principal Legislative IT Analyst
Date: May 7, 2019
Subject: Oregon Employment Department: SB 5508 - Package #101 - Modernization Program
LFO Analysis and Recommendations

Agency Request: Within SB 5508 - Package #101, the Oregon Employment Department (OED) is requesting \$13,699,764 in Other Funds expenditure limitation and 37 permanent positions (28.63 FTE) to continue support of the Modernization Program and initiate the first modernization project focused on transformation of systems and processes for OED's Unemployment Insurance (UI) Program. If approved, these additional positions and expenditure limitation will augment 18 positions (18 FTE) and \$8,359,984 in Other funds expenditure limitation built into to the agency's 2019-21 base budget (total planned position levels and expenditures - 55 Positions and \$22,059,748, respectively). At this stage, OED estimates that the UI Tax and Benefits project will cost between \$80 and \$123 million with project completion anticipated for 2023. However, as the program is in its planning phase and a request for proposal (RFP) for a UI Tax and Benefits solution vendor has not yet been published (nor have vendor proposals been received), an accurate cost estimate or estimated timeframe for completion cannot yet be determined. Specific cost or schedule estimates for the Workforce Modernization component of the Program also can't yet be determined.

Note: The Modernization Program is a multi-biennial initiative that began in the 2015-2017 biennium.

A. LFO Analysis

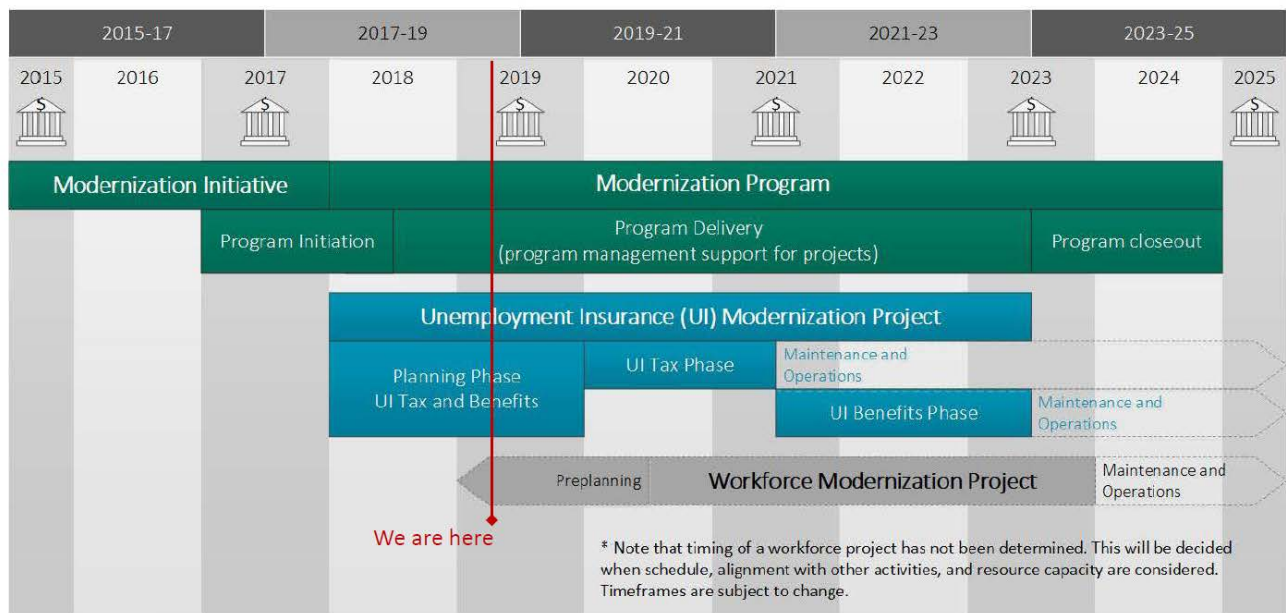
Currently, the Oregon Employment Department (OED) utilizes a number of disparate information systems that were developed and deployed using different technology platforms and/or computer programming languages in the early 1990s (essentially before the internet was widely deployed or used to conduct business in the public sector). These 20+ year old information systems were custom developed and have been extensively modified over time which has increased complexity and complicated system maintenance. Many of these core information systems lack integration with one another, are at or near the end of their useful life, and are increasingly difficult to support, maintain, operate and secure in support of OED program operations, business customers and the public. With continued use of these legacy systems, needed business process improvements cannot be effectively automated and new state or federal requirements are increasingly difficult and costly to implement. Modifications and maintenance of these systems are becoming more difficult as qualified technicians retire and replacement staff with legacy system programming skills become harder and harder to find. On a recurring basis over the past several biennia, more than 40% of the staff in OED's filled IT positions have been eligible for retirement in the next five years. Known security vulnerabilities and increasing cyber security attacks also put these aging systems at escalating risk over time.

To begin to address these issues, the 2015 Legislature approved OED’s policy package to use \$3.04 million in modernization funds for project-related expenditures during the 2015-17 biennium for initial planning for the Modernization Initiative and authorization to hire several key positions: a contracted project management position or firm; contracted modernization program manager or firm; and limited duration Unemployment Insurance (UI) Tax positions to backfill for UI Tax subject matter experts assigned to the initiative. The agency supplemented the policy package with roughly another \$1 million in base budget modernization funds (2015-17 total for policy package and base budget - \$4.03 million). For a variety of reasons, including leadership changes within the agency, work on the initial phase of the modernization initiative did not begin until February 2016 and did not begin to pick up pace until the last quarter of 2016.

The 2017 Legislature subsequently approved OED’s policy package of approximately \$4.7 million in Other Funds expenditure limitation to be supplemented by approximately \$700,000 from the agency’s base budget (total planned expenditures for 2017-19: approximately \$5.4 million). These resources were used primarily for contracted professional services costs and 18 positions (13.95 FTE- a mix of positions - backfill and project resources) to complete the initiation and planning phases of OED’s Modernization Initiative.

A summary diagram of progress made during the current biennium is provided below.

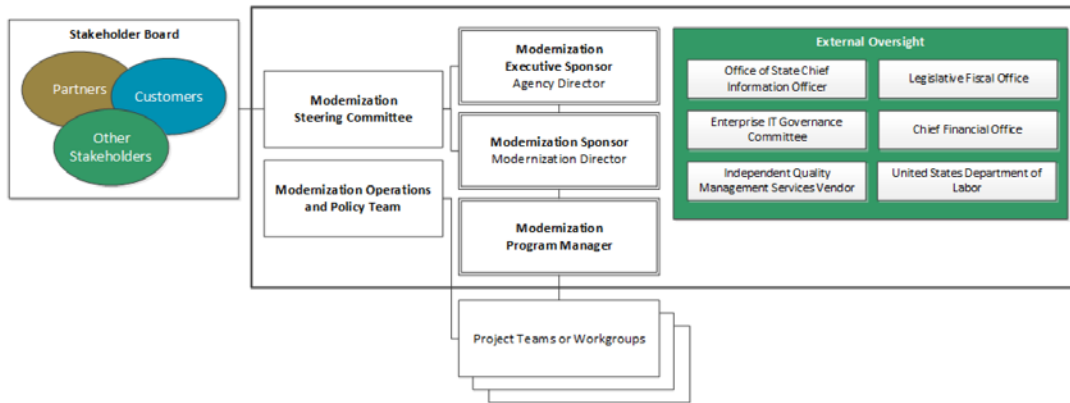
Modernization Program Timeline



Revised: 12/2018

To effectively guide and oversee the modernization initiative, OED has hired a qualified project manager with demonstrated experience in planning and implementing projects of this size and complexity. OED leadership has appointed a Modernization program director, is in the process of hiring a deputy program director, has established an executive level steering committee that meets monthly, or more often as required, and agency leadership meets periodically with the DAS Chief Financial Office (CFO), Office of the State Chief Information Officer (CIO) and the Legislative Fiscal Office (LFO) to discuss progress.

Modernization Program Governance



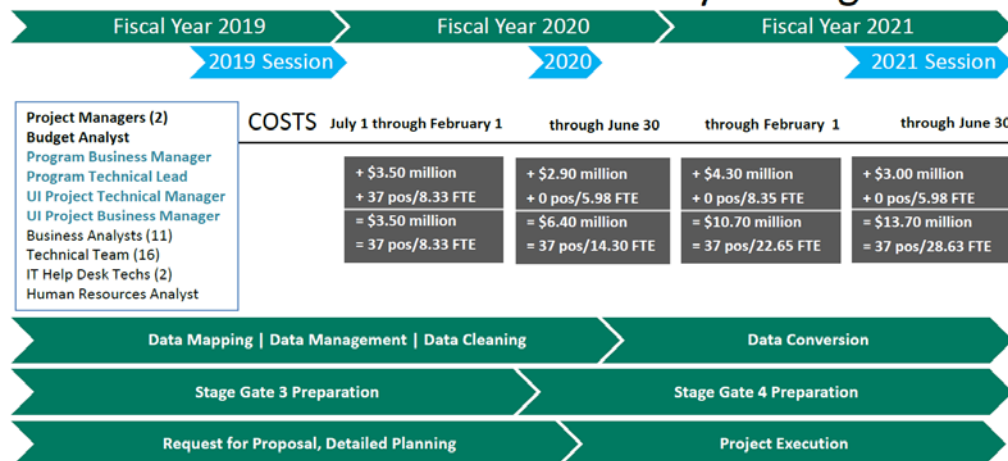
Revised: 2/1/2019

During the current biennium, OED has completed, developed, or submitted the following:

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

If approved, Package #101 deliverables will include: completion and posting of a UI Tax and Benefit Project request for proposal (RFP); solution vendor selection and contracting; project team staff recruitments; facility preparation; equipment installation; data analysis, management, cleansing, and conversion; updated business case, risk assessment, and project management plans; and, independent quality assurance review and oversight as required by the Joint State CIO/LFO stage gate review process. A phased, incremental approach involving each of OED's divisions will help OED better ensure that chosen technology solutions meet program needs, and that new and modern information system deployments can be planned, designed, managed and implemented in an orderly manner. A summary diagram of planned activities and resource requirements during 2019-21 is provided on below.

2019-21 Modernization Policy Package



OED has completed an appropriate level of planning and due diligence to this point in the Modernization program's lifecycle and has demonstrated its readiness to proceed. By all accounts, the program is proceeding on scope and is operating within the authorized budget. OED has experienced some delays in procurement and in the recruitment of key staff which have caused some slippage to the approved project schedule. In LFO's experience, these kinds of delays should be closely monitored but are not uncommon in major IT projects that span multiple biennia. The resource request OED has made within Package #101 is reasonable based on historical resource requirements of major IT projects in Oregon and in other states, and given the scope and scale of OED program and technology operating environments. These resources are necessary for OED to complete detailed planning activities and transition into project execution following Stage Gate 3 endorsement.

B. LFO Recommendations

The Legislative Fiscal Office (LFO) recommends incremental, conditional approval of Package #101 assuming the spending authority and personnel resources are made available to OED within SB 5508. Specifically LFO recommends that OED:

- Continue to work closely with and regularly report project status to the Office of the State Chief Information Officer (OSCIO) and LFO throughout the project's lifecycle.
- Follow the Joint State CIO/LFO Stage Gate Review Process.
- Continue to retain qualified project manager(s) with experience in planning and managing projects of this type, scope and magnitude.
- Update the Business Case and foundational project management documents as required.
- Work with OSCIO to obtain independent quality management services. The contractor shall:
 - Conduct an initial and ongoing risk assessment (s).
 - Perform quality control reviews on the Business Case, procurement documents, and foundational project management documents as appropriate.
 - Perform ongoing, independent quality management services as directed by OSCIO.
- Submit updated Business Case, project management documents, contractor statements of work, initial risk assessment and quality control reviews to OSCIO and LFO for Stage Gate Review.
- Report back to Legislature on project status during the 2020 Annual Legislative Session and/or to interim Legislative committees as required.
- Request Legislative approval to proceed with the project prior to initiating project execution activities (i.e. prior to contract signature/execution).
- Utilize OSCIO's Enterprise Project and Portfolio Management system for all project review, approval, and project status and QA reporting activities throughout the life of the OED Modernization Initiative.

- Motion on the LFO recommendations

C. Final IT Subcommittee Action

Transmit the Joint Legislative Committee on Information Management and Technology recommendations to the Transportation and Economic Development Subcommittee of the Joint Committee on Ways and Means.