



# Oregon

Kate Brown, Governor

## Department of Administrative Services

Chief Operating Office  
155 Cottage St NE  
Salem, OR 97301-3963  
Phone: 503-378-3104  
Fax: 503-373-7643

January 17, 2020

The Honorable Senator Betsy Johnson, Co-Chair  
The Honorable Senator Elizabeth Steiner Hayward, Co-Chair  
The Honorable Representative Dan Rayfield, Co-Chair  
Joint Committee on Ways and Means  
900 Court Street NE  
H-178 State Capitol  
Salem, OR 97301-4048

Dear Co-Chairpersons:

### **Nature of the Request**

During the 2019 Legislature, the Joint Committee on Ways and Means passed House Bill 5032 (2019), which appropriates funds to operate the Public Employees Retirement System and subsequently signed into law by Governor Brown. A Budget Note was attached to HB 5032 that requires PERS and, separately, the Department of Administrative Service (DAS) Enterprise Information Services (EIS) (formally OSCIO) and the Chief Financial Office (CFO) to report to the Joint Legislative Committee on Information Management and Technology and to the Joint Committee on Ways and Means during the 2020 Legislature on the implementation status of Senate Bill 1049 (2019).

In accordance with the HB 5032 Budget Note, DAS EIS and CFO staff developed this report on PERS' SB 1049 implementation activities. This report provides an update on the project scope, schedule, budget, independent quality assurance reporting, and exceptions to standards granted to PERS by DAS. It also updates the estimated impact of SB 1049 on employer rates and identifies changes to project resourcing.

### **Agency Action**

In order to support the expeditious implementation of the SB 1049 mandates, DAS has dedicated significant resources to PERS. An EIS IT Oversight Analyst has been embedded within PERS (approximately 0.5 FTE), a DAS Procurement Services (DAS-PS) procurement analyst has been dedicated to supporting all staff contracting needed, and the DAS Chief Human Resources Office has expedited all staffing support requests.

Since July of 2019, the IT Oversight Analyst has traveled to PERS three days each week, and has provided substantial and timely review and feedback on PERS program and project initiation and planning activities. EIS supported the PERS decision to use a program approach to manage SB 1049 implementation. Under that approach, PERS has divided the implementation activities into one program with five inter-related sub-projects, with separate implementation dates, as listed below:



- a) Employer Programs (effective July 1, 2019)
- b) Work After Retirement (effective January 1, 2020)
- c) Salary Limits (effective January 1, 2020)
- d) Member Redirect (effective July 1, 2020)
- e) Member Choice (effective January 1, 2021)

From the very beginning of the SB 1049 implementation, the estimated level of effort has exceeded the time available for that work. PERS has only recently finalized the baseline program- and project level schedules for its implementation activities, in part due to difficulties with hiring key project management support staff and time needed to document business requirements under the statutory mandate. Realistically, PERS has been “behind schedule” from the start.

In alignment with the EIS program and project oversight model, EIS provided a Stage Gate 1 endorsement for the ***SB 1049 Implementation Program*** on September 13, 2019. EIS has determined that three of the five identified sub-projects (Employer Programs, Work After Retirement, and Salary Limits) will be overseen after receiving a summary execution endorsement (non-stage gate), and that one sub-project (Member Redirect) will be overseen using the multiple gate endorsement method. EIS has not yet determined the oversight method for the Member Choice sub-project.

The SB 5032 budget note outlines six specific areas for reporting: (1) Update on project scope, schedule, and budget, and total cost of ownership; (2) Identification of costs associated with one-time solutions versus permanent solutions; (3) Independent quality assurance reporting on the project; (4) Impact of the SB 1049 information technology project on routine agency operations; (5) Any exceptions from administrative rules, policies or procedures, or statutes granted to PERS by the Department of Administrative Services; and, (6) Other information that helps inform the Legislature on the status of the project or issues that have arisen as the result of the project. There are several aspects of the mandated outline that DAS cannot independently and objectively report. For information about items (2) and (4), please see PERS’ separately delivered SB 1049 status report.

Regarding “(1) Update on project scope, schedule, and budget, and total cost of ownership”:

- a) The scope of the work required under the SB 1049 mandate has remained stable throughout the project timeframe. That said, the PERS process for enhancing functionality in the Oregon Retirement Information Online Network (ORION) has identified at least one area of new business for PERS – the tracking and accepting of after-tax voluntary contributions to the IAP (Individual Account Program). So while the scope of the mandated work has not changed, the work activity required to implement those mandates has increased.
- b) The schedule of the program and its sub-projects has been difficult to establish, and PERS was only able to create an integrated program schedule within the last month. That is in part due to the complexity of the ORION programming changes needed to implement the SB 1049 mandates, and in part to the difficulty PERS experienced acquiring qualified project management resources to supplement limited internal program management expertise, and in part due to the manner by which PERS describes and schedules its ORION software releases. By way of the agency’s decision to implement a minimum viable product for the *Salary Limits* and *Work After Retirement* projects, PERS met the mandated timeframes for those projects, but additional work past the mandated timeframes is needed to more-fully



automate those solutions. It is possible that the mandated timeframes for SB 1049 functionality may need to be extended.

- c) Budgets for each of the SB 1049 sub-projects have been established in the individual project charters. PERS established those budgets using the appropriated funds and the best-available understanding of who would perform the work (internal versus contracted staff) and when. The *SB 1049 Implementation Program* is tracking costs and the estimated total cost at completion in their regular program status reporting. Preliminary information for actual expenditures through December 31, 2019 show significant underspending by PERS for the first two quarters of the biennium when comparing actuals to budget. As a result, the department projects \$2.1 million less expenditures for the 2019-21 biennium. The largest variances between actual and budget are for personal services compensation, professional services, information technology professional services and rent. No compensation expenditures occurred in the first four months of the biennium. In services and supplies, actuals are not aligned with budget for various accounts, with rent and professional services showing the largest variances. This suggests the initial budget plan did not reflect the reality of procurement timelines and the current economy, where vendors are in high demand. The following table shows expenditures through December 31<sup>st</sup>, 2019, the budgeted amount, the unspent amount, and the percent of budget spent in the first six months of the biennium (or 25 percent of the biennium).

	Budget	Actual to Date	Remaining	Percent Spent
General Overhead <sup>1</sup>	\$ 5,500,000	\$ 659,881	\$ 4,840,119	12.0%
Salary Limits Project <sup>2</sup>	\$ 990,947	\$ 9,133	\$ 981,814	0.9%
Work After Retirement Project <sup>2</sup>	\$ 982,164	\$ 120,425	\$ 861,739	12.3%
Member Redirect Project <sup>2</sup>	\$ 28,054,657	\$ 217,315	\$ 27,837,342	0.8%
Employer Programs Project <sup>2</sup>	\$ 1,455,752	\$ 9,421	\$ 1,446,331	0.6%
Member Choice Project <sup>2</sup>	\$ 2,076,194	\$ 9,037	\$ 2,067,157	0.4%
Total	\$ 39,059,714	\$ 1,025,212	\$ 38,034,502	2.6%

<sup>1</sup> Includes packages 802-Project Management and Administration, 803-Quality Assurance, and 806-Contingency

<sup>2</sup> Includes packages 804-Information Technology Applications and 805-Operational Implementation

Some services and supplies accounts are underspent while others are overspent. To update budget projections, it may be wise to adjust among some budgeted expenditures including rent, charges for procurement services from the Department of Administrative Services and the Department of Justice, and for project resources identified by Enterprise Information Services.

- d) The status of the “total cost of ownership” as mandated in the HB 5032 budget note is being reported by PERS. DAS does not have an independent means of establishing and assessing the total cost of ownership.

Regarding “(3) Independent quality assurance reporting on the project”: In collaboration with EIS and DAS-PS, PERS has contracted with an independent Quality Management Services (iQMS) vendor to provide quality assurance and quality control services. At the time of this report, the

January 17, 2020

Page 4

iQMS vendor is contracted to provide: an initial risk assessment, an iQMS quality management plan and project plan, quality control reviews for PERS project management artifacts, and periodic risk reporting deliverables. The timing of the iQMS engagement is appropriate for a program of this type and complexity. Additional iQMS deliverables may be authorized, at the discretion of EIS and PERS.

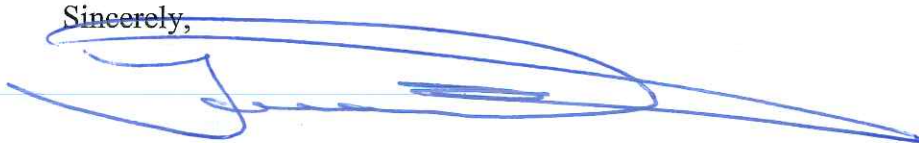
Regarding “(5) Any exceptions from administrative rules, policies or procedures, or statutes granted to PERS by the Department of Administrative Services”: As of January 17, 2020, DAS has not granted exceptions from administrative rules, policies or procedures or statutes to the PERS SB 1049 Implementation Program project. Several memoranda and electronic communications from EIS have been provided to guide PERS’ work activities, and these documents were provided to the Committee as appendices to the PERS SB 1049 Report.

Regarding “(6) Other information that helps inform the Legislature on the status of the project or issues that have arisen as the result of the project”: According to the budget report for SB 1049, net employer rates in the 2021-23 biennium would increase by 0.33 percentage points rather than 5.76 percentage points, resulting in a system rate of a little less than 20 percent. In October 2019, the PERS actuary produced an advisory 2021-23 collared rate of 22.00 percent. The primary reason for the differing rate estimates is uncertainty about the actual impacts of member redirect and work after retirement. The actuary has postponed incorporating the impact of these two elements until there is actual experience to input into future actuarial valuations.

**Action Requested**

Acknowledge receipt of the report.

Sincerely,



Terrence Woods  
State Chief Information Officer



Katy Coba  
DAS Director | Chief Operating Officer

CC: George Naughton, Chief Financial Office  
Ken Rocoo, Legislative Fiscal Office  
Ed Arabas, Enterprise Information Services  
Bob Cummings, Legislative Fiscal Office  
Lisa Pearson, Department of Administration  
John Borden, Legislative Fiscal Office