January 17, 2020

The Honorable Representative Nancy Nathanson, Co-Chair
The Honorable Senator Chuck Riley, Co-Chair
Joint Committee on Information Management and Technology
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairs:

Nature of the Emergency/Request
The Oregon Employment Department respectfully submits this report on the progress of its
Modernization Program and Unemployment Insurance Modernization Project, as requested by the Joint
Committee on Information Management and Technology in a memo to the department dated May 7,
2019.

The Modernization Program and the Unemployment Insurance (UI) Modernization Project activities
continue to progress within expected parameters. Overall, the program and project are under budget and
within scope. We continue to review our initial and optimistic assumptions concerning scheduling. The
yellow "cautious" status remains in place to highlight the need to focus on understanding and setting
realistic timeframes. We are also working to mitigate risks to the overall schedule caused by
underestimating onboarding timelines for vendors (procurement) and staff (recruitment). We will
complete the procurement process for a solution vendor and begin work with the selected vendor(s) in
2020. Additional details are provided in the relevant sections below.

Background
The mission of the Oregon Employment Department is to *Support Business and Promote Employment*.
We accomplish this by:

- Supporting economic stability for Oregonians and communities during times of unemployment
  through the payment of unemployment benefits;

- Serving businesses by recruiting and referring the best qualified applicants to jobs, and providing
  resources to diverse job seekers in support of their employment needs;

- Developing and distributing quality workforce and economic information to promote informed
  decision making; and

- Creating and implementing a new paid family and medical leave insurance program to support
  workers and businesses throughout the state.

The Employment Department's Modernization Program is a multi-year initiative focused on transforming
the agency's business processes and replacing core technology systems to better meet the needs of our
customers – Oregonians and Oregon businesses. The goals of the program are: to enhance our customer's
experience, transform business processes, improve security, and modernize our technology. Legacy

systems supporting receipt of unemployment insurance taxes, payment of unemployment insurance benefits, and delivery of employment services will be replaced. Business processes will be transformed to take advantage of opportunities and benefits available through new system capabilities.

The Modernization Program received Stage Gate 1 endorsement in January 2018. The first project in the program, Unemployment Insurance Modernization, received Stage Gate 2 endorsement in February 2019. Early planning included a feasibility study and the solicitation of vendor input via a formal Request for Information.

The agency testified to the Joint Committee on Information Management and Technology regarding the Modernization Program on May 7, 2019. The Committee recommended approval of the department's related policy package pending approval of our budget by the Joint Committee on Ways and Means.

Agency Action
In our last report to the Joint Committee on Information Management and Technology, we noted that the UI Modernization Project status had changed from "green" to "yellow" signaling that attention was needed to refine our project milestones, particularly around hiring and procurement activities, because these activities were taking longer than our first optimistic estimates. Since then, we have been working to build a more detailed and realistic schedule. Below is a list of major agency actions since that report.

Activities since April 2019
- **Finalized UI Modernization Project business and technical requirements.** The final requirements include 1,530 business requirements and 193 technical requirements. Requirements were based on input from customers, staff, other states, partner agencies, and external parties. Requirements were reviewed for quality by both internal and external experts.

- **Completed phase 1 of facilities build-out** and moved operations into the new space.

- **Finalized and validated documentation of current-state processes and systems inventory.** Mapping included detailed process documentation for 168 business processes and high-level mapping of 103 current agency systems.

- **Procured independent quality management services (iQMS) vendor and initiated services.** The vendor has completed an initial risk assessment and review of selected planning documents. They are actively monitoring project activities and producing monthly and quarterly reports. Enterprise Information Services is performing contract administration for this engagement.

- **Hired additional positions.** All management positions are filled and the hiring for remaining positions continues. Hiring for one position (legacy project manager) has been significantly delayed; other hiring is substantially on track.

- **Launched preparatory work streams** and completed several of them.

  o Interface and Access Workgroup – *completed May 2019*
    ▪ Document interface and access needs, both internal and external to the agency.
  o Process and Constraints Workgroup – *completed December 2019*
    ▪ Identify existing processes, customer inputs and outputs, and legal prescriptions.

- Legacy Planning Workgroup – *continuing*
  - Document and plan for the changes that will need to be made to legacy systems and interfaces as part of the UI Modernization Project.

- **Developed and released Request for Proposal (RFP) for a UI solution prime vendor.** The RFP was released on August 22, 2019 and closed November 5, 2019. We received five proposals in response to our request.

- **Commenced procurement evaluation process.** The evaluation process for the UI solution prime vendor began November 5, 2019 and will continue through the first quarter of 2020, to be followed by contract negotiations. Vendor presentations are scheduled for January and February 2020. We are using an inclusive evaluation process that relies on front-line subject matter experts for key input and agency and external executives for vision and strategy. The successful vendor is expected to begin work during the third quarter of 2020.

- **Initiated an executive-level Stakeholder Board.** The Board includes representation by both customers and service delivery partners, and is charged with providing advice and stewarding interagency collaboration.

- **Initiated other procurements.** In addition to the large procurement for the prime UI vendor, the program requires a number of smaller procurements. Recent and ongoing work includes:
  - Amending the independent Quality Management Service contract to add independent assessments of the process maturity of vendors as part of proposal evaluation for the prime UI vendor (underway).
  - Hiring a vendor to support Organizational Change Management (underway).
  - Hired a vendor to assist with a readiness assessment for transitioning our legacy systems and data (contract signed December 2019).
  - Hired an advisor to support our scheduling processes and activities (contract signed October 2019).

  Procurement timelines and emerging consulting needs have proved difficult to estimate. In response, we are adjusting our scheduling to allow additional time for procurements including time for the various oversight entities to conduct their work. We are also making maximum use of existing statewide price agreements to optimize both value and procurement efficiency.

- **Legacy and data readiness.** Preparation of legacy systems and data for transition is a common challenge in projects of this nature. Closely related is the readiness and availability of technical staff to support the transition. Complex, iteratively evolved systems must be deconstructed and a transition planned and tested in which parts of older systems are replaced in phases. Meanwhile, other parts must continue to work and interact reliably with new systems. Work has been underway for many months, and while significant progress has been made much remains to be done. Measuring our progress to date and predicting what we can achieve with existing resources indicates that we must act quickly to be ready to adapt our legacy systems in concert with the work of the prime UI vendor.

  As mentioned, the program and project's "cautious" status is partially due to the time it takes to onboard resources. We are currently identifying a range of specific actions to respond to legacy readiness challenges including:
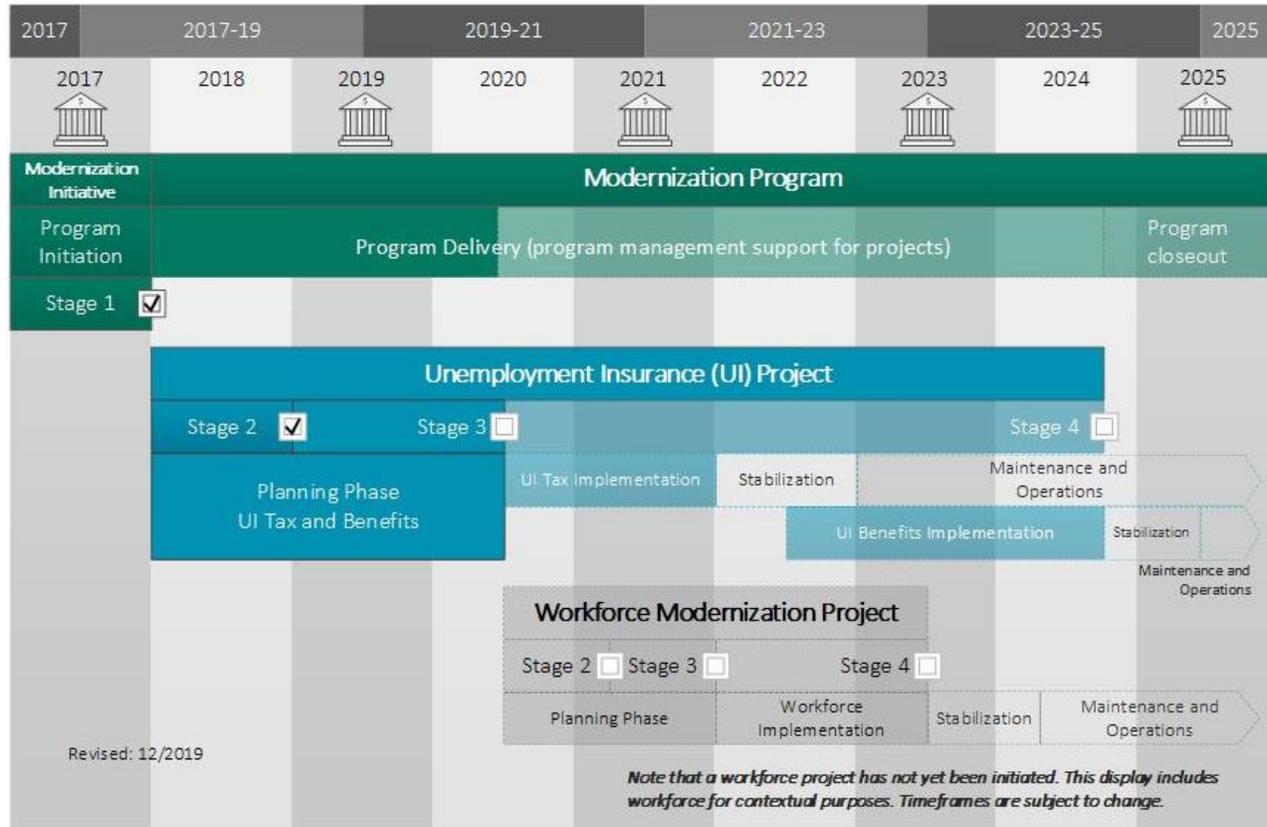 - Hiring additional temporary staff

- o Contracting with a vendor for assistance
- o Making increased use of available automated tools
- o Reconsidering our approach to the phasing of Modernization components to make transitions easier or allow more time for adoption and enhanced performance

- **Paid Family and Medical Leave Insurance (PFMLI).** The Legislative Assembly passed House Bill 2005 in the 2019 Regular Session creating a paid family and medical leave insurance program in Oregon, to be implemented and administered by the Employment Department. The department is hiring a vendor to conduct an agency-wide risk assessment to evaluate how we can successfully deliver both Modernization and create a new benefit program (and business processes and information technology infrastructure to support it) without compromising services to Oregonians or daily operations.

Timeline

Figure 1 below illustrates the high-level projected timelines for the Modernization Program and anticipated projects. We have adjusted the timeline in two ways to accommodate what we have learned over the last year. First, the current timeline includes a stabilization period following each of the implementation phases to allow for staff transition and the establishment maintenance and operations processes. Second, the procurement timeline has been extended to reflect our experience to date.

Figure 1. Modernization Program Timeline

The projection is based on what we know today. In alignment with the joint stage-gate model, we are "driving within our headlights." The limit of our headlights is shown by the range of the solid colors in the timeline in Figure 1; we have detailed plans for those tasks. And, for the further-off tasks that are shaded, we are clarifying our best-estimate projections. As we learn and make decisions, our headlights shine further into the future. We continue to work closely with Enterprise Information Services (EIS) and will share the draft artifacts required for Stage Gate 3 with the EIS office for review and feedback prior to our submission.

Efforts are currently underway to prepare for initial baselining of the schedule and to ensure that planned tasks and can be proactively monitored and variance measured in a manner suitable for the upcoming execution phase. Until that work is complete we are considering the program schedule to be in yellow or "needs attention" status.

Scope
The scope of the UI project remains unchanged since our last report. Figure 2 below shows a brief high-level summary of the scope.

Figure 2. UI Modernization Project Scope

UI Modernization Project Scope	
Legacy systems to be replaced	31 systems
Legacy systems impacted	48 systems
External data transfers	128 total (126 data transfers | 2 interfaces)
Internal data transfers	234 total
External system accesses	58 access points, 24 stakeholders
Mandatory reports	113 (66 state and federal reports | 47 financial reports)

Budget and Staffing
The Modernization Program is funded by Unemployment Insurance (UI) funds and other revenues available to the agency. The department received $85.6 million in one-time UI funds from the U.S. Department of Labor in 2009, often referred to as UI Modernization Funds that we have earmarked for this effort. As of October 2019, the UI Modernization Funds balance was $81.7 million.

Of the 37 new positions authorized for Modernization in the 2019-2021 budget, 17 have been hired. We will continue hiring over the next several months. Modernization expenditures since inception, projected through the end of the current biennium, are shown in Figure 3.

Of note, the agency's current budget authority does not include any provision for prime vendor costs, because they are not yet known. We expect to request additional expenditure limitation for vendor costs in May of 2020. Based on the experience of UI modernization projects in other states, we anticipate the total cost of the UI Modernization Project to be between $80 million and $123 million. While no Oregon-specific estimate has been made for maintenance costs, the ongoing maintenance costs experienced by other states are in the range of $3 to $6 million annually. The department will have more specific information related to expected UI Modernization Project costs as we conclude the procurement during the first half of 2020.

Figure 3. Modernization Expenditures (Program, UI Project, support functions)

Biennium	Approved Limitation	Actual + Projected Expenditures*	Unused Limitation	Positions
2015-17	$ 4,032,659	$ 1,240,818	$ (2,791,841)	4
2017-19	$ 5,371,161	$ 3,581,349	$ (1,789,812)	18
2019-21	$ 22,059,748	$ 22,059,748	0	37
2021-23	TBD			
Total through 2019-21	$ 31,463,568	$ 26,881,915	$ (4,581,653)	55

*Actual expenditures as of 10/31/2019; projected expenditures as of 12/1/19.

Efforts are currently underway to prepare for initial baselining of the budget and to begin measuring variance in a manner suitable for the upcoming execution phase. Until that work is complete we are considering the program budget to be in yellow or "needs attention" status. Costs for the Workforce Modernization project have not yet been scoped.

Ongoing Program Oversight
The Modernization Program has robust internal and external oversight including a Modernization Program Steering Committee with representation from across agency programs and EIS, and full endorsement and active engagement of the Employment Department's Executive Team. We also provide regular updates to oversight entities including EIS, the Legislative Fiscal Office (LFO), and the Chief Financial Office. Independent Quality Management Services (iQMS) are in place and reporting monthly to the agency, EIS, LFO, the agency director, and the director of the Department of Administrative Services, as required by statute. In addition, the U.S. Department of Labor, our federal partner and funder, has issued guidance that stipulates the requirements states must meet when they implement new UI systems.

Planned Activities for 2020
- Complete team recruitments. We expect to complete recruitments by mid-2020.
- Vendor selection, negotiation, and onboarding. Four vendors will visit Oregon for presentations and interviews in the first weeks of 2020, and we anticipate completing our due diligence by approximately March 2020. This will include visits to states where the finalists have systems installed and working, as well as independent third-party evaluation of finalists' capacity and the maturity of their processes.
- Review, and as appropriate act upon, results of the agency-wide risk assessment currently underway in response to a budget note in House Bill 2005 (2019).
- Seek Stage Gate 3 endorsement from EIS and LFO.
- In collaboration with the selected vendor, carry out detailed planning of execution phase, anticipated to begin in August 2020.

Action Requested
The Oregon Employment Department requests acceptance of this report.

Legislation Affected

None.

Sincerely,

Kay Erickson
Director, Oregon Employment Department

cc: Ken Rocco, Legislative Fiscal Office
         Michelle Deister, Legislative Fiscal Office
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