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Kate Brown, Governor

April 2, 2021

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

RE: Response to SB 5723 (2020) Budget Note – relating to the implementation of SB 1049 (2019) and the Core Retirement Systems Application program

Dear Co-Chairpersons:

Nature of the Request

During the 2020 2nd Special Legislative Session, the Legislature passed Senate Bill 5723 (2020), which decreased the Public Employees Retirement System's (PERS) expenditure limitation associated with the Core Retirement System Applications program by $10.5 million (among other provisions)—a program associated with the implementation of Senate Bill 1049 (2019). SB 5723 also included a Budget Note directing PERS, and the Department of Administrative Services (DAS), Enterprise Information Services (EIS), and Chief Financial Officer (CFO) to report on the status of SB 1049 implementation to the Joint Committee on Information Management and Technology before the 2021 Regular Session. Jointly prepared by DAS, EIS, and CFO, the report that follows provides an update on the ten (10) items identified within the Budget Note (listed below), including scope, schedule, budget, risks, issues, independent quality assurance reporting, and oversight activities.

Agency Action

To support the accelerated implementation of SB 1049, DAS continues to dedicate significant staffing resources to support PERS. These resources included a dedicated EIS IT Oversight Analyst physically embedded within PERS (until the COVID-19 pandemic required a transition to remote work), and expedited reviews of all SB 1049 artifacts by the assigned IT Oversight Analyst. Additionally, all PERS contracting needs were supported by a dedicated DAS Procurement Services (DAS-PS) Procurement Analyst. While the interagency agreement (IAA) formalizing this arrangement expired in June 2020, the originally assigned Procurement Analyst continues to be assigned to all SB 1049-related procurement efforts.

EIS supports PERS' decision to employ a program management framework to manage the SB 1049 implementation effort. Using this approach, PERS divided the implementation activities into a single program responsible for coordinating five interrelated sub-projects; each with its own implementation timeline. This approach aligns with the EIS program and project oversight model, and EIS provided a Stage Gate 1 endorsement for the SB 1049 Implementation Program on September 13, 2019. EIS determined that three of the five identified sub-projects (a. Employer Programs, b. Work after Retirement, and c. Salary Limits) were to be placed under formal oversight after receiving a summary execution endorsement ("Non-Stage Gate") and that the Member Redirect and Member Choice sub-projects will be overseen using Level 3 oversight ("Stage Gate"). To date, all sub-projects have received an appropriate EIS endorsement to commence execution activities as listed below:

a. *Employer Programs: Non-Stage Gate endorsement received September 29, 2020*
   Note: The Employer Programs sub-project was formally re-baselined and an addendum issued to the Non-Stage Gate endorsement on March 17, 2021.
b. *Work After Retirement: Non-Stage Gate endorsement received January 27, 2020*
   Note: The Work after Retirement sub-project was formally re-baselined and an addendum issued to the Non-Stage Gate endorsement on March 17, 2021.
c. *Salary Limit: Non-Stage Gate endorsement received January 27, 2020*
   Note: The Salary Limit sub-project was formally re-baselined and an addendum issued to the Non-Stage Gate endorsement on June 18, 2020. The sub-project was re-baselined for a second time and a second addendum was issued on March 17, 2021.
d. *Member Redirect: Stage Gate 3 endorsement received March 18, 2020*
   Note: The Member Redirect sub-project was formally re-baselined and an addendum issued to the Stage Gate 3 endorsement on March 17, 2021.
e. *Member Choice: Stage Gate 3 endorsement received August 24, 2020*
   Note: The Member Choice sub-project was formally re-baselined and an addendum issued to the Stage Gate 3 endorsement on March 17, 2021.

As noted above, the SB 5723 Budget Note outlined ten (10) specific areas for reporting, including:

(1) *Update on project scope, schedule, budget, and total cost of ownership;*
(2) *Identification of costs associated with one-time solutions versus permanent solutions;*
(3) *Current project risks, likely impacts, and mitigation strategies;*
(4) *Explanation of the delay related to implementing member redirect and associated costs and actuarial impact(s);*
(5) *Independent quality assurance reporting on the project;*
(6) *Impact of SB 1049 (2019) information technology project on routine agency operations;*
(7) *Any exceptions from administrative rules, policies or procedures, or statutes granted to PERS by the Department of Administrative Services;*
(8) *Whether SB 1049 (2019) is meeting financial objectives;*
(9) *Any investments made by the agency during the biennium for technical debt; and*
(10) *Other information that helps inform the Legislature on the status of the project or issues that have arisen as a result of the project.*

Given the joint-nature of the Budget Note, there are several informational requests that DAS, EIS, and CFO are unable to independently verify and objectively report on PERS' behalf. For information about items (2), (6), (8), and (9), please see PERS' separately prepared SB 1049 status report.
Regarding the first item, "(1) Update on project scope, schedule, budget, and total cost of ownership":

a) The scope of the work required under the SB 1049 mandate remains unchanged. The scope of each sub-project is documented within the requisite business case and project charter. PERS is employing an agile or iterative implementation approach and progressively elaborating the baselined high-level project scope (in terms of established work packages) into detailed requirements, tasks, and activities. Any minor adjustments to the scope have been researched, reviewed, and approved through the program's established Change Control process.

b) Given this agile approach, it has been difficult to firmly establish a long-term schedule for the program and its sub-projects. Each project created and baselined a duration-based schedule at the time of EIS endorsement. Using these schedules, PERS has met the legislatively mandated timeframes for projects through the development of minimally viable products (MVP),

comprised of established policies and processes and the minimum-required technical components. Additional work to more fully automate the identified solutions will continue beyond the mandated timeframes. At the direction of EIS, PERS engaged with a vendor on key project and program management processes, including the creation of resource-loaded, effort-based schedules that were validated across projects. At this time, PERS has completed the re-baselining project and program schedules as a result of this work. Consequently, EIS has issued addenda to the appropriate endorsement memoranda to reflect the work and understood schedule changes. Implementation activities associated with three of the five projects (a. Employer Programs, c. Salary Limit, and e. Member Choice) are expected to conclude on or before June 30, 2021, with administrative closeout activities for these projects concluding no later than August 2021. As of the writing of this report, the Member Redirect (d) sub-project is expected to conclude in April 2024. The Work after Retirement (b) sub-project is currently completing detailed elaboration activities to develop a schedule for the last work package, which may extend the duration of the sub-project into 2022. EIS anticipates and approving a re-baselined schedule for the sub-project when this work concludes.

c) Budgets for each of the SB 1049 sub-projects have been established within the individual project charters and were baselined at the time of EIS endorsement. The SB 1049 Implementation Program is tracking costs and the estimated total cost at completion in their program status reporting. Consistent with the expected expenditures for the remainder of the 2019-21 biennium, Senate Bill 5723 (2020) reduced expenditure limitations for the Core System Retirement Application by $10.5 million ($10 million for Information Technology Applications in Policy Package 804; $500,000 for Contingency Reserve in Policy Package 806). PERS has requested additional funding during the 2021-23 biennium through a Policy Option Package to fund Member Redirect (d) that was included within the Governor's Recommended Budget. Funding for Work after Retirement (b) activities may also be required to enable the delivery of the final work package no later than early 2022. A modest request is also expected in the 2023-25 biennium for the final two work packages and closing activities associated with Member Redirect (d), although the estimate of the request has not yet been prepared. At the time of this report, expenditures to date for the 2019-21 biennium and the requested budget for the 2021-23 biennium are as indicated in the following table:

	2019-21 Budget	Actual to Date	Projections	2019-21 Total	2021-23 POP	Program Cost
Salary Limit	$1,422,027	$804,100	$580,994	$1,385,094	-	$1,385,094
Work After Retirement	$2,182,839	$1,526,947	$540,272	$2,067,219	$37,000	$2,404,219
Member Redirect	$21,040,133	$15,319,868	$3,377,203	$18,697,071	$22,477,797	$41,174,868
Employer Programs	$2,051,084	$1,033,214	$973,243	$2,006,457	-	$2,006,457
Member Choice	$2,337,814	$1,642,943	$638,530	$2,281,473	-	$2,281,473
Total	$29,033,897	$20,327,073	$6,110,242	$26,437,315	$22,814,797	$49,252,112

d) The status of the "total cost of ownership" as mandated in the SB 5723 Budget Note is being reported by PERS. DAS does not have an independent means of establishing and assessing the total cost of ownership.

Regarding the third item, *"(3) Current project risks, likely impacts, and mitigation strategies":*
PERS has implemented a rigorous and proactive risk management strategy for the SB 1049 Implementation Program. This strategy includes ingesting reported risks and issues from internal and external sources, as well as in-depth analysis of risks and issues received via quarterly reporting provided by the program's contracted independent Quality Management Services (iQMS) vendor. PERS is assigning priorities and owners, implementing mitigation strategies for risks as necessary, and using established Change Management processes where required. As of this report, PERS is tracking 76 open risks and one open issue (related to the requested budget for the 2021-23 biennium that has not yet been approved).

Regarding the fourth item, *"(4) Explanation of the delay related to implementing Member Redirect and associated costs and actuarial impact(s)"*:

a) PERS has preliminarily reported that the implementation of Member Redirect is now expected to end in April 2024. The Software Development Lifecycle (SDLC) used by PERS and approved by EIS through artifact approvals and endorsements include the progressive elaboration of baselined scope and associated schedules as projects progress. PERS submitted a project schedule for the Member Redirect sub-project as part of its Stage Gate 3 artifacts, indicating an expected end date for the sub-project of December 31, 2021, and that detailed elaboration of the work packages required to fully implement the long-term solution for the project was not yet complete. Through the elaboration process for the long-term project work at the appropriate phase of the SDLC, PERS discovered that the technical level of effort required to meet the full scope of the Member Redirect project would necessitate a longer timeframe in which to design, test, and implement the required functionality. Documentation was provided to EIS regarding this change; EIS is waiting for the final resource-loaded schedule for the Member Redirect sub-project (as described in 1b) to confirm the expected sub-project closure date before finalizing and acknowledging the completed re-baselining effort and new sub-project end date.

b) The nature of the *"associated costs and actuarial impact(s)"* for Member Redirect, as mandated in the SB 5723 Budget Note, is being reported by PERS. DAS does not have an independent means of establishing and assessing the total cost of ownership.

Regarding the fifth item, *"(5) Independent quality assurance reporting on the project":*
In collaboration with EIS and DAS-PS, PERS has contracted with an iQMS vendor to provide quality assurance and quality control services. At the time of this report, the iQMS vendor has provided an Initial Risk Assessment, Quality Control (QC) reports on the key program- and project-level artifacts, as well as three periodic quality status reports and three quarterly quality status reports. The iQMS vendor is contracted to continue providing periodic risk reporting deliverables and status reporting for the duration of the program. Additional iQMS deliverables may be authorized, at the discretion of EIS and PERS.

Regarding the seventh item, *"(7) any exceptions from administrative rules, policies or procedures, or statutes granted to PERS by the Department of Administrative Services":*

There have been no exceptions from administrative rules, policies or procedures, or statutes granted to PERS by DAS. Acknowledgment of execution activities before the requisite endorsements to execute were provided to two sub-projects (Member Redirect and Member Choice) to allow short-term

execution activities to begin while the scope and schedule inclusive of the entire project were baselined. Acknowledgment of execution work on Work Package 1A for the Member Redirect sub-project was provided in the Stage Gate 2 endorsement memo issued on January 27, 2020; acknowledgment of execution work on Work Package 1 for the Member Choice sub-project was provided in the Stage Gate 2 endorsement memo issued on April 2, 2020. This is not a PERS-specific exception and has been granted to other Major IT projects in similar circumstances in the recent past.

Regarding the tenth item, *"(10) other information that helps inform the Legislature on the status of the project or issues that have arisen as a result of the project":*

The embedded oversight analyst model implemented in the early initiation phases of this effort allowed for the program to quickly progress through the early oversight stages as needed to meet aggressive timelines established within SB 1049. With the onset of the COVID-19 pandemic and the progression to execution for the sub-projects of the SB 1049 Implementation Program, the assigned Oversight Analyst is no longer embedded. The SB 1049 Implementation Program continues to receive prioritized attention and expedited reviews from the assigned Oversight Analyst. There has been no impact on the quality of oversight provided by EIS as a result of this change.

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
           Laurie Byerly, Interim Legislative Fiscal Officer
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