

POINTS SUBCOMMITTEE REPORT

A Report Prepared for the

Legislative Finance Committee

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POINTS HISTORY

The 1997 legislature provided funding (\$17.2 million) via HB 188 to reorganize the Department of Revenue around a process-focused structure and to develop and implement a customized and integrated computer software system to replace approximately 20 stand alone computer systems used by the Department of Revenue to administer taxes. Subsequently, the 1999 legislature approved additional funding (\$18 million) via HB 15 to develop and implement a second phase of the project that would further integrate other major tax types into the system.

The project named POINTS (Process Oriented Integrated System) consists of two phases. The first phase (POINTS I) was intended to deliver the foundation components of the system to support the common business functions for each of many tax types. POINTS I also administers employer, wage-based taxes. The following foundation modules are provided by POINTS I:

- Registration
- Accounting
- Forms and Correspondence
- Returns Processing
- Case Management
- System utilities for security and maintenance

The second phase (POINTS II) was intended to add modules for individual income tax, corporate license tax, and property tax to the initial phase of the system, thus completing full integration for administration of major taxes collection by the Department of Revenue.

The Department of Revenue has accepted POINTS I from the development contractor and implemented it in December 1999. Since implementation, a significant number of software defects have been identified with POINTS I to the level where concerns with the system's stability and data integrity have been voiced by the legislature. These concerns led to requests by three interim committees with differing but appropriate roles for regular reports provided by the department on POINTS remediation and development status. To provide for a coordinated legislative oversight role and to reduce the burden on the Department of Revenue from providing similar updates to three separate interim committees, a joint subcommittee with members from the three interested committees was appointed to oversee the progress of bringing POINTS into full production and to report back to the respective committees on the progress and concerns with the POINTS project.

The POINTS Subcommittee is comprised of Senators Greg Jergeson and Royal Johnson of the Legislative Finance Committee (LFC); Senators Jim Elliott (chairman) and Corey Stapleton and Representatives Jeff Pattison and David Wanzonried of the Legislative Audit Committee; and Representatives Ron Devlin and Ron Erickson of the Revenue and

Transportation Committee. The subcommittee met twice since the March LFC meeting: March 25 and May 1. They are tentatively scheduled to meet again on June 13.

SUBCOMMITTEE UPDATE

At the May 1 meeting, the Department of Revenue provided updates on the status of stabilizing POINTS I and a progress report on the development and acceptance testing of POINTS II. A letter to the subcommittee members from Kurt Alme, the department director, dated May 1, 2002, is attached and provides information relevant to the department's plans to proceed with the project.

GENERIC STATUS OF THE POINTS PROJECT

The department has reached a point in the project where most of the disputes with Unisys, the development contractor, have been resolved. The department is currently working under a Memorandum of Understanding (MOU) with Unisys. The MOU includes the following terms in settlement of several outstanding issues:

- Unisys and the department would release all claims against each other for the property phase
- Unisys would release all claims against the department for delays in the individual income tax and corporate license tax (IIT/Corporate Tax) phase
- Unisys will provide parallel implementation at no cost to the department
- Unisys will remove and test the removal of all property tax code from the IIT/Corporate Tax code
- The department will pay Unisys \$365,000 to resolve these contract issues

The department owns POINTS I and is using state resources to correct software defects associated with POINTS I. POINTS II is still under development by Unisys and the department is continuing with acceptance testing. Below are more detailed summaries of the status of POINTS I and II.

STATUS OF STABILIZING POINTS I

As stated above, POINTS I has been in production and is being used by the department to perform its daily business functions. However, it has also been fraught with a large number of defects (portions of the software do not perform the intended functions as designed). The department has focused its efforts on correcting and testing the effectiveness of fixes to mission critical and other high priority defects of the POINTS I software. Mission critical defects are problems with the software coding that impact the system's ability to complete essential business functions. The milestone for this effort is to reach stability by **December 31, 2002**. The department is following recommendations provided by Dr. Joel Henry, a software expert under contract with the department. According to Dr. Henry, the goal of the stabilization plan is to "stabilize the functionality of the POINTS I software system such that core business functions operate reliably and

future defects can be corrected quickly.” This definition doesn’t imply perfection, only that the software will be corrected to the point where no over burdensome workarounds are required to perform the core business functions the system is intended to provide.

In their report, the department implied that they are seeing signs that POINTS I is becoming more stable. Signs that POINTS I may be moving to stability are:

- Project contingencies are being used at a slower rate than anticipated in the project management plan
- The number of new defects identified in the highest two priority levels (mission critical and level 1) continues to drop each month
- A trend has developed where the number of new defects identified has been less than the number of closed defects since February 2002

The chart titled, “Defect Priorities M’s and 1’s” was provided by the department in their May 1 report and is attached to illustrate the defect trends identified above.

POINTS II STATUS

As mentioned above, the department has not accepted POINTS II from Unisys. The department has been conducting acceptance testing to verify that POINTS II functions in accordance to design specifications.

One significant deviation has been made from the planned system funded by the legislature. This deviation involves the removal of the property tax module from the planned system. Development of this portion of the project has been stalled since February 2001 when the subcontractor hired by Unisys stopped development and a dispute resolution process was initiated.

The current property tax reappraisal is being administered via an updated version of the legacy property tax system used prior to POINTS. This system was upgraded using funds authorized by the 2001 legislature in HB 3 (the Supplemental Appropriations Bill). Because the functions that would be provided by the POINTS II property tax component are currently being administered by this legacy system and the remaining POINTS funding isn’t adequate to complete POINTS with the property tax component, the department has removed it from the project plans. As such, the department has negotiated with Unisys to remove software coding associated with this component from the other portions of the IIT/Corporate Tax modules.

Under the original plan for POINTS, the IIT/Corporate Tax modules were scheduled to be completed by August 2001 and the property tax module was scheduled to be completed September 2001. Current estimates by the department are that the system, without the property tax module, would be implemented and the final conversion of data from the legacy systems by **August 31, 2003**. This estimate assumes that POINTS I stabilization and POINTS II development will proceed concurrently.

PLANS FOR SYSTEM COMPLETION

Since POINTS II builds on the basic business functions provided by POINTS I, stabilization of POINTS I is critical to implementing POINTS II and therefore a fully integrated system for major tax types administered by the department. POINTS I and II are currently two separate software codes that eventually must be combined to become one fully integrated software system. As independent changes are made to these two software codes the common base that began with an early version of POINTS I software code continue to diverge. Eventually, the differences between the coding will need to be reconciled and the differences corrected so the two can become one.

Because the department has limited staff resources and funding to bring POINTS into full production, the department has identified different plans to consider for proceeding with the project. The attached letter from Director Alme to the POINTS Subcommittee members, dated May 1, identifies the plans the department is considering as they proceed with the project. This letter documents the department's evaluation of the options and the estimates of funding impacts associated with the two options considered by the department as the most viable.

Some of the highlights of this letter are:

- The department currently recommends a concurrent approach to stabilizing POINTS I and completing development and implementation of POINTS II
- The department has identified major project risks that would have an adverse impact on the projected costs and schedule of the recommended plan (Section 4 of the letter)
- The recommended plan (concurrent plan) identifies a funding shortfall of roughly \$660,000 that would likely be requested of the 2003 legislature to finish the project (schedule attached to Kurt Alme letter)
- The property tax module is not currently included in the department's plans and would necessitate future funding to develop and integrate into the system

SUPPLEMENTAL FUNDING AND RISKS

As stated, the department has identified that additional roughly \$660,000 funding would be needed to complete the project under the concurrent plan. These unidentified costs include \$560,000 for contracting with a software architect and a data quality expert. In addition to these POINTS I stabilization and POINTS II development and implementation costs, the department currently estimates that their present law budget would need \$1.35 million additional adjustments for the 2005 biennium to provide maintenance support and to make payments to the Department of Administration for increased computer usage costs. The department has suggested that they would likely request decision packages in their 2005 biennium budget request for these additional costs.

The letter from Director Alme identified seven major risks for the concurrent plan. Of these, two will be significantly impacted by future funding decisions. One involves the current situation involving potential general fund reductions for the 2003 biennium. The second is associated with legislative approval of supplemental funding to complete the project. The department stated that if the current biennium funding for the department is reduced or if the supplemental funding weren't approved, the project schedule would be significantly impacted.

POINTS SUBCOMMITTEE SUPPORT

Following the department's status report during the May 1 meeting, the department requested the subcommittee's concurrence in proceeding with the concurrent plan. Subcommittee members voiced their individual concerns and concurrence with the plan. The subcommittee took no formal vote of concurrence. However, of the six members present, five voiced some support of concurrence and one voiced opposition to the plan.

LEGISLATIVE ACTION SINCE THE MARCH LFC MEETING

Since the March 2002 LFC meeting, the Legislative Audit Committee and the Revenue and Transportation Interim Committee have formally voted to provide recommendations to the Department of Revenue on how to proceed with POINTS. At its March 26 meeting, the Legislative Audit Committee voted to recommend to the Department of Revenue that it work towards stabilization of POINTS I, cease work indefinitely on POINTS II, and work towards an alternate solution for POINTS II, including funding. At its April 12 meeting, the Revenue and Transportation Interim Committee voted to recommend that the Department of Revenue move forward with their plans for the stabilization and implementation of POINTS I and II with the Revenue and Transportation Interim Committee's continued oversight.