Budget Change Proposal - Cover Sheet
DF-46 (REV 06/19)

Fiscal Year 2021-22	Business Unit 7730	Department Franchise Tax Board		Priority No. 1
Budget Request Name 7730-001-BCP-2021-GB		Program 6280	Subprogram 6280010/6280019	

Budget Request Description
Enterprise Data to Revenue – Phase 2 (EDR2)

Budget Request Summary

The Franchise Tax Board (FTB) requests an augmentation of $72.9 million General Fund and 23 permanent and 13 limited-term positions in 2021-22 to begin the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan. The resources received from this proposal will allow FTB to continue supporting the optimization of business processes throughout the EDR2 life cycle.

Requires Legislation ☐ Yes ☒ No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? ☒ Yes ☐ No *If yes, departmental Chief Information Officer must sign.*	Department CIO	Date

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No.   Project Approval Document: Approval Date:

If proposal affects another department, does other department concur with proposal?   Yes ☐   No ☐
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By	Date	Reviewed By	Date
Department Director	Date	Agency Secretary	Date

Pending Board Approval

Department of Finance Use Only					
Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Dept. of Technology					
PPBA			Date submitted to the Legislature		

A. Budget Request Summary

The Franchise Tax Board (FTB) requests an augmentation of $72.9 million General Fund and 23 permanent and 13 limited-term positions in 2021-22 to begin the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan. The resources received from this proposal will allow FTB to continue supporting the optimization of business processes throughout the EDR2 life cycle.

B. Background/History

FTB's primary function is to administer the California Revenue and Taxation Code (R&TC), which includes collecting the proper amount of tax revenue and costs effectively and operating other entrusted government programs. FTB strives to serve the public by continually improving the quality of products and services and performing in a manner warranting the highest degree of public confidence with integrity, efficiency and fairness.

Annually, FTB processes more than 17.8 million Personal Income Tax (PIT) returns and 1.2 million Business Entity (BE) returns, responds to more than three million telephone calls, handles over eight million Internet contacts and collects about $ 92.3 billion in revenue annually, representing approximately 74 percent of the State's general fund revenue[1].

FTB uses the phrase "Blue Path" to represent the systems and processes used to process tax obligations that are filed correctly, timely, and paid. The FTB Tax Business Model (Figure 1) diagram illustrates the "Blue Path" and "Red Path", which are the conditions that taxpayers can be in with regards to FTB's Tax Business Model. Approximately 83 percent of California's taxpayers are "Blue Path" taxpayers, and they are integral to FTB's success. Conversely, FTB uses the phrase "Red Path" to represent the systems and programs used to process tax obligations that are filed incorrectly, not reported timely, require correction or activity to collect an unpaid balance. The "Red Path" processes are the most costly way for FTB to carry out its mission because they attempt to recover revenue often with insufficient data, redundant systems, and functions that are not shareable and reusable.

Figure 1

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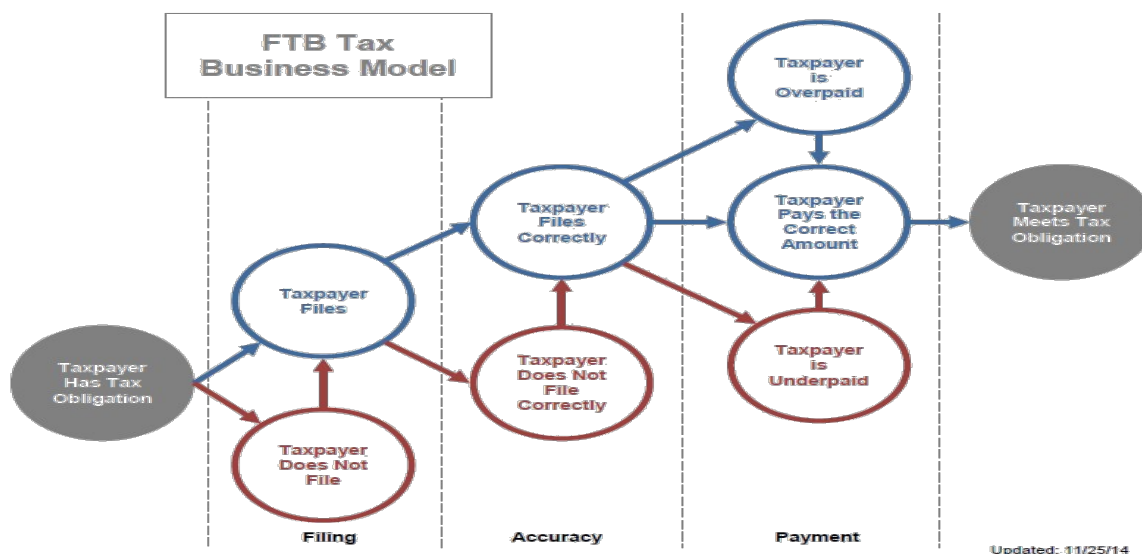
[1] Revenue figures are based on the 2019-20 Cash Report reported in the Department of Finance's July 2020 Finance Bulletin. Due to the filing extension of April 15, 2020 to July 2020, the total revenue collected was lower than previous years.

FTB's workloads break down into seven key Business Systems of Work (BSOWs), which include Return Filing, Filing Enforcement (FE), Return Validation, Audit (includes legal), Overpayment, Underpayment, and Payment Processing. In 2007, FTB's TSM Bureau undertook an extensive effort to perform a Business Problem Analysis (BPA). The BPA involved an enterprise strategic planning session for FTB's tax systems Information Technology Strategic Plan (ITSP). The BPA targeted FTB's BSOW, specifically analyzing Return Filing; Return Validation; FE; Audit; and Underpayment, with an overall objective to align FTB's goals and strategies with initiatives designed to deliver breakthrough improvements at both the enterprise and BSOW levels. The BPA clarified, defined, and detailed FTB's Strategic Goals and Enterprise Vision which was reconciled against the vision plans of the Filing, Audit, and Underpayment business areas. In addition, the BPA defined the Strategic Business Problems (SBPs) faced by the business areas that are obstacles to achieving the Enterprise Vision and identified opportunities for solving the problems.

The Strategic Business Plan, business goals, and visions developed by the business areas were used to identify the SBPs. The BPA not only defined and highlighted business problems but illuminated strategies and opportunities to enable the business areas to achieve their visions and goals more efficiently and effectively. With validation from both the business and technology stakeholders, the SBPs produced a business focus intent on establishing a clear and comprehensive vision to increase revenue through managing the tax gap (the difference between the amount of tax owed and the amount of tax paid). This is accomplished by improving and streamlining processes, reducing waste, minimizing redundancy, and reducing technology maintenance and operations costs. The BPA facilitated the formulation of a strategic IT portfolio that included a three-phase TSM effort to modernize FTB's systems environment and reach its strategic target architecture.

Phase 1 of the TSM effort, completed in 2016, consisted of the Enterprise Data to Revenue (EDR) project and addressed the problems identified in the original BPA for the Return Filing and Return Validation BSOWs (specifically in the application of modeling and case management (CM)) and built the foundation for the next two phases of the TSM effort. This phase included Imaging, Data Capture, CM, Return Processing, Modeling, Taxpayer Folder, and MyFTB. The EDR project resulted in an enterprise data, modeling, CM platform and infrastructure with common services that can be expanded across the enterprise.

Phase 2 of the TSM effort is the EDR2 project. This project as proposed builds on the enterprise data, modeling, CM platform and infrastructure provided by EDR by expanding the enterprise CM and modeling to the Audit, Legal, FE, and Underpayment BSOWs. Phase 2 also expands the functionality for the Taxpayer Folder and MyFTB and decommissions multiple legacy systems.

In 2017, to support EDR2 efforts a second Business Problem Analysis (BPA2) was conducted to:

- Validate and refresh the previously identified business opportunities in the first BPA, with emphasis on those opportunities not implemented by EDR: Audit, Legal, FE, and Underpayment.

- Identify new business opportunities with emphasis on technology advancements since the first BPA in 2007.

- Gauge overall progress towards the technology target architecture.

- Facilitate a process to help FTB understand the benefits, outcomes, and impacts of the business opportunities identified for phase 2 of the Tax Systems Modernization effort.

This BPA2 included input from business owners and key stakeholders from the Audit, Legal, FE, and Underpayment business program/process areas and helped define the scope of EDR2. Separate meetings were held for each business area where subject matter experts discussed their

as-is business processes and the related core business problems. From these discussions, objectives were identified to resolve the business problems.

The following table shows the progress at a high level made by FTB's TSM efforts toward solving FTB's six SBPs. Phase 1 shows the post EDR project progress and plans, while phase 2 shows the projected progress based on the BPA2 opportunities identified. Finally, phase 3 reflects the proposed completion of FTB's TSM efforts by moving all of FTB's major systems to the enterprise platform and modernizing the accounting systems for both Personal and Business Entity Income Taxes.

Strategic Business Problem	Phase 1 (EDR)	Phase 2 (EDR2)	Phase 3 (EDR3)
1. Limited Data Availability	50%	90%	100%
2. Fragmented Business Processes	30%	90%	100%
3. System Redundancy and Limited Reuse	30%	70%	100%
4. Limited Self Services	30%	90%	100%
5. Limited Data Analytics	20%	90%	100%
6. Legacy System Aging/Outdated Technology	10%	70%	100%
Total	28%	83%	100%

As a result of the BPA2 analysis identified above, and FTB's overall TSM vision, the EDR2 project will focus on the following BSOWs: Audit and Legal, Filing Enforcement, and Underpayment.

Audit and Legal

The Audit and Legal Division's mission is to ensure that taxpayers report and pay the correct amount of tax. FTB administers the following two tax debt types: PIT and BE. The Audit Division is responsible for auditing PIT taxpayers and BE taxpayers, and for investigating taxpayers for criminal activity. This is accomplished with approximately 1,100 staff, located in 12 offices (including offices outside California) that produce about $2.4 billion in net assessments annually. The Audit Division also maintains an inventory of over 350 investigation cases.

The Audit Division acquires and analyzes data to facilitate the selection of audit candidates through modeling to optimize audit case selections and increase compliance. It currently uses multiple, separate modeling and data systems: Professional Audit Support System (PASS), which reaches end-of-life December 2025; Enterprise Customer Assets, Income, and Return (ECAIR); Head of Household (HOH); Computer Paragraph #2000 (CP2000); Selection of Tax Returns for Automated Audit Review System (STARS); and Federal and State Automated Report System (FEDSTAR). In addition to the modeling systems, the Audit Division uses multiple CM systems (PASS, HOH, CP2000, STARS, and FEDSTAR) and one noticing system: Personal Audit Work Station (PAWS).

The Legal Division performs a variety of legal functions and services for all of FTB's BSOWs, including the Audit, FE, and Underpayment BSOWs. These services include representing the department in protest, appeal, litigation, and settlement case tax matters. Legal also manages other workloads that are separate from supporting the BSOWs compliance and processing efforts, such as regulatory workloads. The Legal Division uses PASS to manage the above in the following manner:

- As a CM system for protest, appeal, bankruptcy and collection cases.

- To manage projects that, unlike the CM items, are not necessarily tied to a case or taxpayer. These workloads include the division's settlement, legislative, closing agreement and regulatory workloads.

Both Audit and Legal play a vital role in managing California's estimated $10 billion dollar tax gap.

Filing Enforcement

FE is one of FTB's primary methods to manage the tax gap and gain compliance with the State's tax laws. The key element of the program is the Integrated Nonfiler Compliance (INC) System that identifies potential nonfilers by matching third-party reported income records, determining if the nonfiler had a filing requirement, and verifying whether a return was filed. These potential nonfilers are notified exclusively by mail of their filing requirement and, if they fail to file a tax return, are assessed an amount of tax based on income information obtained from third-party sources. The program promotes and encourages taxpayers to file their returns correctly and self-comply in the future.

A critical component of the FE process is the acquisition and analysis of third-party data. By using third-party data, in 2018-19 an additional 264,000 tax returns were filed and approximately $906 million ($834 million from PIT and $72 million from BE) in additional revenue was collected. FE is accomplished with approximately 90 staff in Sacramento who coordinate the processing of approximately 515 million income records from third-party sources.

Underpayment

The Account Receivable Management Division (ARMD) manages the Underpayment SOWs and resolves collection accounts by collecting the correct amount of money owed. This program provides direct assistance to taxpayers and tax professionals by educating them when responding to billing notices, explaining outstanding debts, and encouraging them to voluntarily pay in full. For those taxpayers who do not comply, involuntary collection action is taken through both automated and collector assigned processes. This may consist of contacting taxpayers, filing liens, issuing levies, and seizing assets. Each of the tax debt type, PIT and BE, has a separate collection system that essentially performs the same collection functions, such as levies, installment agreements, and notices. FTB's Underpayment activities are accomplished with approximately 1,350 staff in Sacramento and five field offices throughout California. For 2018-19, the Underpayment revenue collected was $3.6 billion.

A key component of the Underpayment process is the acquisition and analysis of data, both internal (taxpayer data) and external (third-party data). Data is critical to the success of Underpayment and is vital to the planning, execution, and evaluation of its strategies. Underpayment modeling currently uses the Enterprise Modeling platform to perform modeling for PIT, BE, field office, and discharge cases; however, only the model score for PIT and BE are currently being used to determine treatment paths and next actions.

Underpayment's primary sources of taxpayer engagements are paper based communications, telephone calls, and Live Chat via the internet. With EDR, strides have been made through the implementation of MyFTB to provide additional communication channels and increased self-services to taxpayers. These options will be available for the Underpayment BSOW with the implementation, and currently require underpayment staff to rely heavily on more expensive and time consuming methods of communication. While working in the field, staff have limited access to information and services, resulting in either follow-up work or reliance on the taxpayer to complete the desired action.

EDR2 solutions are especially vital to Underpayment staff. The business area's collection staff utilize a case management and modeling system (Accounts Receivable Collection System – ARCS) that is nearing end-of-life (December 31, 2025). The EDR2 project will replace this system.

C. State Level Considerations

The EDR2 project represents phase 2 of an enterprise-wide TSM effort to align FTB's IT infrastructure with its strategic business plan. The EDR2 project will continue to significantly improve the department's ability to address the state's annual $10 billion tax gap through strategically planned TSM efforts consistent with FTB's strategic plan.

The EDR project is vital to FTB's continued success and now is the time for FTB to take advantage of the knowledge and experience staff gained from the EDR. The project will move FTB's siloed compliance systems onto an enterprise CM platform (infrastructure implemented in phase 1 of the EDR project). This transition will improve efficiency, provide a better taxpayer experience and increase revenue. Additionally, because the technology currently supporting two of FTB's major systems (ARCS and PASS), which annually allow FTB to collect over $4 billion in compliance revenue, are nearing end-of-life and will no longer be supported after December 31, 2025, implementing EDR2 at this time is critical. Replacing these systems before they reach end of life will ensure FTB business operations generating significant compliance revenue for the state will not experience any critical failures.

The protection of FTB's current revenue streams from two major compliance systems, added revenue from efficiencies and new compliance opportunities, plus anticipated improvements to taxpayer compliance and experience will provide many long-term benefits to the state. Associated benefits not only increase the General Fund, but also improve the public's perception and awareness in order to fully support and accurately participate in the taxation process for the benefit of all Californians.

The EDR2 project supports FTB's mission to fairly and effectively administer the state's tax system and the Strategic Plan Goals for Taxpayer Centric Services, Effective Enforcement, a Strong Organization and Operational Excellence.

D. Justification

The EDR project took a major step in addressing the tax gap by creating a centralized data warehouse and a foundational IT platform to evaluate and use data to increase compliance. The EDR2 project will support replacement of two legacy systems that are near end-of-life (ARCS and PASS) and take additional steps in addressing the tax gap. This step will provide technology to more effectively manage the tax gap by transitioning the Audit, Legal, FE and Underpayment SOWs to FTB's enterprise platform and implementing new Audit, FE, and Underpayment strategies that will identify new revenue streams.

EDR2 will take a proactive approach in identifying noncompliant tax behavior, encouraging Blue Path behavior, and using more data to reconcile all aspects of a tax return to further support tax gap management and California's voluntary compliance-based tax system. Moving the Audit, Legal, FE, and Underpayment SOWs to the enterprise platform results in efficiencies across program operations. In addition, the EDR2 project presents an opportunity for FTB to address

legacy systems that are using outdated technology. The following table shows the systems FTB plans to replace with EDR2 and their original implementation dates and ages.

System	Date Implemented	System Age in Years (as of 2021)
ARCS	1999	22
INC	2001	20
PASS	1997	24

The EDR2 project plans to achieve the following Objectives:

- Increase revenue and efficiencies by:

  - ➢ Making data available from the Filing Processes, Audit, Legal, FE, and Underpayment BSOWs available to support all compliance activities across the enterprise

  - ➢ Allowing for communication across all departmental compliance activities (Enterprise CM Platform).

  - ➢ Automated workflows with manageable and reusable processes which use common tools and services.

  - ➢ Implement new compliance models for noncompliance discovery and fraud detection, tracking, and prevention.

- Implement new taxpayer self-service capabilities to enhance taxpayer self-compliance, education, and communication capabilities.

- Transition the EDR2 solution's Maintenance and Operations to the State.

- Retire FTB's legacy systems by working collaboratively with legacy teams to identify and manage negative impacts to systems.

The EDR2 project follows the California Department of Technology's (CDT's) Project Approval Lifecycle (PAL) Process. The most recent document approved for the EDR2 project was the Stage 3 Solution Development (S3SD). The S3SD was approved August 15, 2019 and included the department's final Compensation Model and Detailed Solution Requirements. The final document is the Stage 4 Project Readiness and Approval (S4PRA). This document is scheduled to be completed during March 2021 and will include the EDR2 vendor selection and project approval.

The EDR2 project's Request for Proposal (RFP) was released on April 30, 2019 on the Cal eProcure website. In May 2020, FTB received the final proposals with proposed solutions from the bidders. Notification of Award to the contractor is scheduled to be made during December 2020. The EDR2 project has an estimated start date of July 1, 2021.

This proposal represents the first requests for resources to support the EDR2 project. In order to complete contractor staff onboarding, meet control agency requirements and ensure a successful first year the department request the below resources and funding:

Enterprise Business Area Positions

Administrative Services Division

Taxpayers' Rights Advocate Office

1 permanent position – Program Specialist I

The Taxpayers' Rights Advocates' Office (TRAO) is responsible for protecting the rights of taxpayers, particularly during the assessment and collection of taxes. With the implementation of EDR2 the TRAO's workloads will increase and the office does not have the resources available to absorb the additional tasks.

The requested *Program Specialist I* will assist the Advocate, acting as the EDR2 SME. The Advocate SME will work with internal business partners to ensure EDR2 deliverables are supported by and meet the needs of taxpayers and tax professionals who assist taxpayers. This position will participate in EDR2 planning activities, such as Joint Application Development (JAD) sessions, and raise and/or address any concerns that arise during the developmental stage. Ongoing, the Program Specialist I will be responsible for engaging in education and outreach activities supporting FTB processes, including changes adopted through EDR2 and working with taxpayers, as they request, to manage any compliance issues with FTB. With system enhancements, FTB's ability to select, enhance, and manage our compliance work will see increased workflows throughout the department, including TRAO.

Internal Audit Section

1 seven-year limited-term position (life of the project) – Program Specialist I

The Internal Audit Section is responsible for independently assessing FTB's fiscal, business operation, and related information system's internal controls. The Program Specialist I will serve as an independent internal controls EDR2 project SME. This will ensure risks are properly identified and addressed as FTB's business processes and systems change. The Program Specialist I will conduct a variety of activities to support the EDR2 project which includes attending JAD sessions, providing independent validation of EDR2 revenue, and independently confirming the accuracy of payments made to the solution provider.

This business area does not have resources that can be redirected from existing work to accommodate this project work.

Security Operations Section (SOS)

1 seven-year limited-term position (life of the project) – IT Specialist I

This IT Specialist I, will be responsible for defining audit logging requirements and ensuring the requirements are met throughout the project. Applications and services designed and implemented by the EDR2 solution are required to have secure audit logging with their solution. Security Audit Loggings (SALs) record user activities within FTB's applications and services enabling the department to identify misuse and fraud. The specific requirements of the logging are highly dependent on application and service design and the work starts during the initial design and development of products.   As such, a position is needed during the initial stages of the EDR2 project to support the SAL requirements during the development, testing, and validation processes.

The high level of development workloads and enhancements the vendor will produce will result in a significant SAL increase. The limited-term position requested will be responsible for managing the EDR2 related SALs. Because of the volume and complexities of the vendor's solutions, the current Secure Audit Logging team cannot absorb these increases. They are responsible for overseeing the continuous maintenance and operation work FTB completes on existing systems.

Information Security Audit Unit (ISAU)

1 permanent position – IT Specialist I

The ISAU conducts administrative investigations (non-criminal) and supports criminal investigations involving misuse of external applications, which includes self-service options. As with the SOS, SALs are also instrumental to the work the ISAU manages. The unit uses SALs to create alerts for the detection of suspicious and criminal activity, data breaches, and abuse of FTB's public facing applications and self-service options. When suspicious and/or criminal activity is identified, ISAU conducts an investigation and, at times, involves ISAU's partners in Disclosure, Fraud, and Criminal Investigations. Early detection and analysis of patterns and schemes are necessary to prevent system abuse, which includes unauthorized access, disclosure of confidential taxpayer information, and the release of fraudulent refunds. With the public having access to more self-service options online, and an increase in staff that will be accessing these applications and services, the volume of security alerts will also increase, requiring analysis and possibly an investigation. This staff member will be involved in all development and implementation activities associated with EDR2 deliverables and ultimately will provide assistance in following up on alerts derived from systems that have been expanded or newly implemented. For the EDR2 solution's external services only, there are at least 71 new notice Authentication & Action, Online Application functions, or enhancements to current online services. Each of the enhancements requires security audit logging, which in turn will require alerting and incident response by ISAU.

Privacy Section – 1 permanent Senior Operations Specialist

1 permanent positions – Senior Operations Specialist

The Privacy section requires an additional position to be involved in the day-to-day development and communication of privacy requirements and controls needed in EDR2 solutions in accordance with, and as required under, IRS Publication 1075, SIMM 5310C, and SAM 5310.8. FTB must be able to demonstrate proactive and thorough care for the privacy of the personal information the department collects, uses, processes, and maintains. Using privacy controls with security plans based on FTB's strategies and goals allows the department to select the appropriate set of controls required for FTB's systems and business processes.

Incorporating fundamental privacy concepts in the planning stages of the project helps mitigate risks that can occur if the appropriate controls are not in place. To ensure FTB's EDR2 solutions contain appropriate measures and required privacy controls it is vital to have this resource start during the initial implementation period.

Personnel Resources Section

1 permanent position – Associate Personnel Analyst; and

1 two-year limited-term position starting January 1, 2022 – Associate Personnel Analyst

The Personnel Resources Section is responsible for recruiting, hiring, and onboarding tasks, such as duty statements, structure reviews, and hiring/interview process support.   FTB anticipates a significant increase in vendor and FTB staff and these additional positions will assist with the workloads associated with the increase. As staff need sufficient time to learn their job duties and be prepared at the onset of the project, it's vital that they onboard at the beginning of the project. The limited-term position will cover only the upsurges in EDR2 staff related growth. The permanent position will be assigned to FTB's Classification & Hire unit. They will be responsible for supporting the permanent additional EDR2 staff who will be subject to enterprise career movement.

Equal Employment Opportunity Office

1 permanent position starting January 1, 2022 – Associate Personnel Analyst

The Equal Employment Opportunity (EEO) Office is responsible for ensuring FTB's employees' equal employment opportunities are compliant with federal and state laws and regulations, such as the Americans with Disabilities Act of 1990 and Title VII of the Civil Rights Act of 1964. The new analyst will help the EEO Office absorb the additional work anticipated with the FTB staff growth from EDR2.

Processing EEO workloads requires adequate EEO professional staff to the total level of staff ratio. Allowing the EEO office to maintain an appropriate level of staff will ensure FTB has the resources necessary to provide reasonable assurances on the reliability and integrity of information. In turn, the department will sustain strict compliance with federal and state employment laws thereby managing and minimizing FTB's exposure and liability related to allegations of workplace discrimination, harassment, and retaliation.

EEO programs present complex legal cases and are critical functions that must be performed and addressed in a timely manner. EEO staff identify, investigate and resolve workplace issues that, left unattended, could spiral out of control and embroil the organization in legal matters pertaining to federal and state anti-discrimination and harassment laws. Failure to manage these programs will present legal risk for FTB and California if requests for a reasonable accommodation or an investigation of an allegation of harassment is not undertaken in a timely manner and appropriately resolved.

Finance & Executive Services Division

Accounting and Financial Resources Section

2 permanent positions starting January 1, 2022 – Senior Operation Specialists

The request of two permanent Senior Operation Specialists addresses the resources needed to manage the Enterprise Metric Book, advance data access, usability, and analytics to aid in decision-making and improve operational outcomes in the EDR2 project as well as enterprise operations. The FTB Metric Book program identifies key performance indicators (KPIs) that allow for operational and financial decisions. The KPIs provide ongoing performance information to management and stakeholders that are critical for sound decision-making by showing whether the FTB is achieving its strategic and tactical operational goals and objectives.

Before and during the EDR2 project's full implementation, the department will need to develop an architectural infrastructure to gather and store FTB's enterprise data in one centralized location. To

ensure the information used is reliable, the requested resources will be responsible for validating and reconciling big data sets from multiple data streams and systems. This will ensure the accuracy of the information used in the new Metric Book data lakes.

As changes occur, advancements on how data is collected, accessed, and analyzed will need to be documented. To ensure the data is accurate the positions will need to develop and monitor data quality metrics and analyze for continuous improvements over all facets of FTB's operations. Collaboration among all FTB divisions to cross-train staff on new technologies and performance metrics will result in an engaged workforce.

Technology Services Division

IT Service Support Section

1 permanent position – Information Technology Specialist I; and

1 three-year limited-term position – Information Technology Specialist I

The IT Service Support Section resources will be responsible for managing the increased workload of providing help desk support activities during the EDR2 project. As FTB increases the number of EDR2 related staff, including contracted workers, FTB also needs to increase the number of IT staff to support them. Having the appropriate level of staff to assist with EDR2 related increases is vital to responding to help desk issues timely and ensuring staff stay productive. The specialists will be responsible for help desk items, such as troubleshooting hardware and software issues, replacing equipment timely, when needed, addressing technical issues, and providing general support to keep FTB and vendor staff actively working on the project. The additional specialist will mitigate FTB's risks of having schedule delays incurred because staff are unable to work.

Change Management Function

5 five-year limited-term positions – 2 Senior Operations Specialists, 3 Staff Operations Specialists

The success of EDR was dependent on FTB staff's ability to quickly understand and adopt the vast technological changes, business processes and procedures. To ensure the organization was well prepared for the change, FTB established an Organizational Change Management (OCM) Program within the Business and Implementation Section. Using best practices from Prosci and ADKAR as a guide, the OCM program outlined a comprehensive framework used to manage the changes throughout the enterprise. The OCM addressed the people side of change for both internal and external stakeholders – including creating a compelling vision of the future, strategy for change, executive change leadership, communication plan, needs assessment, readiness assessment, training plan, adoption assessment, and reinforcement activities. The result of a comprehensive OCM strategy will help ensure employees understand, commit, accept and embrace change with minimal impact to the business.

As with EDR, EDR2 will require a comprehensive OCM program to successfully transition staff to the new IT solutions and processes to ensure they are effectively used and adopted by the enterprise for sustained change. OCM will lead staff through EDR2 related changes while still striving to improve FTB customer's experience and collecting the proper revenue for the state of California. While limited-term positions, FTB anticipates needing these resources through the initial implementation of the project, ending on June 30, 2026. These limited-term resources will need to immerse into the current environment to understand the impacts to the users and stakeholders and effectively perform the duties needed for the project.

Business Process Management Section

5 permanent positions – 5 Staff Operations Specialists

FTB established the Business Process Management (BPM) team during the initial EDR project to help with documentation of existing and enhanced functions associated with the EDR process. This team is responsible for assisting with ongoing documentation efforts for these processes. To account for any process or legislative change, business processes are reviewed annually.

EDR identified 12 unique enterprise Governed Processes, which required ongoing BPM oversight. These processes will need to be expanded to include the remaining EDR2 related department functions. In addition, it is expected that several additional Governed Processes will be identified and staff must be able to oversee this required and necessary work for both existing and new Governed Processes.

In order to continue supporting the ongoing need to optimize and document business processes for the EDR2 and future EDR efforts, BPM requests five additional staff. These staff allow the BPM team to annually complete the essential process documentation for approximately 105 governed and non-governed business processes.

Training and Procedure (Various Divisions)

Training and procedures are critical to any business operations to ensure staff are trained and understand how to do their job. If staff are not properly trained there would be staff job performance issues, retention issues, morale issues, lower levels of customer service and production. All of these issues will negatively impact revenue collection and customer satisfaction and lead to an increase in customers having to make additional contacts with the department.

FTB does not have adequate resources to continue to manage procedures, training materials, and training classes with the significant new processes being introduced as a result of EDR2. This was a painful lesson learned from EDR wherein we did not plan or staff for an increased support effort of this nature and FTB had to redirect staff or forego efficient operations. To avoid detrimental impact going forward, additional staff is needed.

In support of the project, FTB is requesting both permanent and limited term resources starting at the beginning of the project to manage training and procedures at both the enterprise and local level. Enterprise materials will be created and used to ensure staff are trained on enterprise systems and procedures. In addition, local business staff will retain the responsibility to develop and maintain localized procedures associated directly with a program area's business processes. During the project, these staff members will attend JADs as Subject Matter Experts (SMEs) to understand system functionality and work alongside the vendor to create FTB specific examples to ensure training materials and enterprise procedures are relevant and applicable to the business. They will collaborate to ensure the appropriateness of training examples and procedures for both enterprise and local procedures. They will serve as SMEs and review the training materials the vendor provides to ensure they are consistent with procedures, change management, and FTB training materials. They will write enterprise procedures, communicate the procedures to the department, and ensure local procedures are updated appropriately.

All resources will work together initially to create and update products. Ongoing permanent staff will maintain products and will be responsible for updating products quarterly as quarterly updates

are done on the new systems. FTB anticipates quarterly system updates requiring an update to training materials and procedures. The current systems (ARCS, PASS, and INC) are dated and do not undergo regular changes which is distinguishable from the new systems which will undergo quarterly updates for years after implementation. Existing resources do not exist to provide and update training materials and procedures.

Enterprise Function: Organizational and Employee Development Services – OEDS (Administrative Services Division)

4 permanent positions – 4 Senior Operations Specialists

OEDS is responsible for ensuring FTB employees have relevant training materials and procedures to utilize the enterprise systems enhanced or implemented by the EDR2 project. These materials will be utilized by approximately 6,000 employees, who support revenue collections for California.

As the project proceeds, the vendor will transition the creation of all training materials to OEDS and OEDS will lead the effort for FTB to create, publish, and provide Training for Trainers of all of the training materials, collaborate with business SMEs, and provide support for the training environment at the enterprise level. OEDS will also take responsibility for managing enterprise procedures after the vendor leaves.

Local: Budget & Admin Section (Audit Division)

4 permanent positions – 1 Administrator II, 1 Program Specialist II, 2 Program Specialist I; and

3 seven-year limited-term positions (life of the project) – Program Specialist I

EDR2 will replace several audit systems, including PASS which will now become Audit's new system of record. This requires re-training all existing central and district office Audit staff. Most Audit staff work in PASS on a daily basis. As PASS functionality is phased out, any delay in training may cause inefficiencies, lost revenue, and stakeholder frustration. In order to facilitate training throughout all Audit offices and program areas, the trainers must become EDR2 SMEs. The training staff must remain available to resolve all Audit-related issues throughout the EDR2 lifecycle and after the project ends.

The Manual of Audit Procedures (MAP) is the primary guidance for the Audit Division and contains detailed procedures for every phase of an audit. The MAP must be kept current at all times to ensure FTB upholds the Taxpayers' Bill of Rights and other statutory obligations. Audit staff and other stakeholders rely on the MAP to ensure the legality, objectivity, timeliness, and sustainability of audit cases. As each EDR2 release is implemented, enterprise procedures will not address Audit-specific impacts. Thus, Audit trainers must review each section of the MAP to determine the impact and create new or adjust current procedures to support the audit program and the specific audit area impacted.

Local: Advisory, Analysis and Services Bureau (Accounts Receivable Management Division)

1 permanent position – Senior Compliance Representative; and

1 five-year limited-term position – Senior Compliance Representative

The ARMD requests two trainer positions to facilitate the development and presentation of EDR2 training curriculum and tools for PIT and BE new hire training classes, as well as, advanced

collector training classes, veteran collector refresher training and other special training requests as needed. It is ARMD's responsibility to utilize enterprise materials as feasible but also create and maintain any ARMD program area-specific training and procedure manuals. With current hiring patterns, approximately 1,000 classes are conducted per year at the Central Office and the Northern and Southern California Field Offices for ARM staff, ranging in length from two hours to three days.

Permanent resource requested will work with existing staff members to ensure all local business procedures and training materials specific to ARMD operations and systems are maintained and updated. This staff member will also be responsible for providing one on one assistance with staff members who need additional support after attending a class to ensure their understanding of the material and ensuring their productivity level is as expected.

Local: E-Programs & Budget Section (Filing Division)

1 permanent-intermittent position – Senior Compliance Representative

The e-Programs and Budget Section requests one permanent position to meet the Filing Division' training needs due to the increase in permanent staff as a direct result of the EDR2 project. Because of the increase in Filing Division permanent staff, the division projects annual training classes, which onboard new employees to the EDR2 application, among other baseline training, will increase from three to four annually. The Filing Division's training team will not be able to meet this increase in training with current staffing levels. This assumption is based on the current attrition rate and the influx of permanent staff anticipated upon implementation of the project.

It is Filing's responsibility to utilize enterprise materials as feasible but also to create and maintain any Filing program area-specific training and procedure manuals. Within the Filing Division, approximately 150 or more new employees are on-boarded annually and the division is required to ensure these front-line customer service employees are able to navigate, perform transactions and fully operate the new EDR2 applications.

Operating Expenses and Equipment

Compensation Payments to the Contractor

Cost – $40.7 million

The contractor funding is required to support EDR2 project contractor's service. The EDR2 Contract is a hybrid variable and fixed price contract. The contractor compensation is allocated at a 70 percent fixed payment and 30 percent benefits-based payment and is calculated using the total cost of the State-accepted and successfully deployed Compensation Deliverables. The first year, 2021-22 contractor compensation cap for estimated quarterly payments is estimated at $40.7 million which has been reduced by a projected 10 percent holdback amount deployed across the entire project.

In 2021-22, contractor tasks include EDR2 project startup activities, including the setup of the contractor PMO, as well as the procurement and installation of hardware and software for the EDR2 solution; EDR2 project deliverables, such as the Management Requirement Deliverables (MRDs); implementation of scheduled business functionality; and operational support for implemented business functionality.

5 Percent Contingency Compensation Payments to the Contractor

Cost – $22.5 million continuous appropriation through 12/31/2026

The contingency payment is for an event where additional work must be performed which was wholly unanticipated and is not specified in the Statement of Work (SOW), Request for Proposal (RFP), or the contractor's proposal, but is necessary for the successful implementation and/or operation of the system; and the successful accomplishment of the EDR² Project goals. The FTB requests that Provisional Language be added to the 2021-22 Budget as follows:

The Department of Finance (DOF) will augment the amount appropriated in Schedule (1) in 2021-22 by an amount of $22.5 million for contingency payments should FTB encounter unanticipated task costs not previously identified in the EDR2 Request for Proposal (RFP) or contractor's proposal. Authorization for expenditure of this money will be sought from DOF and the Joint Legislative Budget Committee (JLBC) before expending any of the funding. The DOF may authorize expenditures not sooner than 30 days after notification in writing to the JLBC. This provision shall apply to any item currently appropriated for support of the EDR2 Project. Any funds provided that are not expressly used for the specified purposes shall revert to the fund from which they were appropriated at the end of the project.

This amount is not to exceed five percent of the sum of the base contract and is being requested as a continuous appropriation amount over the life of the project (until December 31, 2026), not including the maintenance and operations portion of the contract.

Independent Verification and Validation and Quality Assurance Consultant Service

Cost – $3.3 million

IV&V oversight consultants primarily focus on ensuring the project development adheres to project management best practices and standards to deliver high quality products/solutions and provide ongoing insight into complex projects. The IV&V consultants identify and document any project findings that are used to drive continuous improvement in the quality of products/solutions with regular evaluations, reporting, and communications. The project findings provide clarity about the overall state of the project, identify process improvement opportunities, and help forecast roadblocks before they become project impediments. This involves both verification of project processes and validation of work products.

Quality Assurance (QA) consultants primarily focus on optimizing processes and standards that deliver quality products/solutions and ensure that they meet the specified requirements and standards, and that customers consistently receive a high quality product/solution. QA is a proactive approach where defects are detected before a product/solution is implemented.

Per the SAM Section 4940.3, "IV&V services are required for all reportable projects classified as medium or high criticality and must begin on or before the proposed project start date." The EDR2 project is classified as medium criticality. In addition, the CDT strongly recommends that FTB procures QA services in addition to IV&V services.

IV&V services will begin June 2021 and conclude when the EDR2 solution is implemented in December 2026. QA services will begin July 2021 and conclude when deliverables are met in December 2026.

Independent Security Assessment Consultant Service

Cost – $300,000

A project the size and scope of EDR2 requires outside security assessments to ensure the vendor is not introducing new risks via security vulnerabilities to the state during the project implementation phase. These independent assessments bring in not only SMEs to perform penetration testing but also provides an outside look at the system as a whole. The objective of the proposed Independent Security Assessment are twofold:

1. Establish a baseline for evaluating and performing vulnerability and penetration testing against EDR systems, which include ITF, CM, and the MyFTB online application. In addition, a security assessment will be conducted once a year throughout the EDR2 project life-cycle. Both the initial baseline and the annual assessment report will provide an objective assessment of the level of risk to these systems and provide options to remediate them.

2. The initial baseline compared with the annual assessment report will help the EDR2 project team identify the vulnerabilities introduced by changes for EDR2. FTB's EDR2 contract will call out these independent security assessments, including the initial baseline, and require the vendor to address any new vulnerabilities that are introduced as a result of the EDR2 solution.

If the vulnerabilities are not identified during the EDR2 project and attributed to the project, the contractor will not be responsible for fixing them. The independent security assessment will allow FTB to identify security gaps during the duration of EDR2 project, as well as reduce FTB's risks of confidential data leakage, breaches, and unplanned outages of EDR/EDR2 systems for business.

Independent Security Assessment consultant services will begin July 2021 and conclude when the EDR2 solution is implemented in December 2026 and funding is requested annually throughout this time period.

California Department of Technology's Independent Project Oversight Consultant Service

Cost – $216,000

For projects classified as medium or high criticality the CDT's Independent Project Oversight Consultant (IPOC) service is responsible for developing an Independent Project Oversight Report (IPOR). The IPOC analyst ensures the project and department is following their internal processes, procedures and project plans. The IPOC analyst also works with the Independent Verification and Validation (IV&V) and Project Oversight and Guidance (POG) units to ensure the department is following policies stated in the State Administration Manual (SAM) and State Information Management Manual (SIMM). Per SAM Section 4819.36 and 4940.1, the IPORs must be completed by the CDT's IPOC monthly. The EDR2 project is classified as medium criticality.

IPOC services will begin July 2021 and conclude when the EDR2 solution is implemented in December 2026 and funding is requested annually throughout this time period.

E. Outcomes and Accountability

The CDT's approved S1BA, S2AA and S2SD supports this BCP request and provides the details about the project scope, solution requirements, procurement and staffing strategy, solution development, evaluation methodology, and cost/payment model.

A cross section of FTB departmental staff participated in the PAL Process document development, analysis, and requirements. The EDR2 Business Director and EDR2 Technology Director will work with FTB's POG and Procurement units to oversee project activities and ensure all applicable policies, rules, guidelines and procedures are followed, as well as perform communication management, including status reporting, consistent with stakeholder and overseer needs.

- FTB has taken various steps and requested funding to ensure a successful EDR2 implementation.
- A CDT IPOC will be engaged to ensure project management activities, including schedule management; earned value analysis; and risk management, are executed consistent with industry best practices and standards.
- An IV&V and QA consultant will also be engaged to oversee and perform QA of the EDR2 project contractor and state activities to ensure execution is consistent with requirements.
- The Independent Security Assessment consultant will ensure that the EDR2 project contractor is not introducing new risks via security vulnerabilities to the state.
- FTB's Data Center in Los Angeles Building will have accommodations to support EDR2 equipment installations in 2021-22 when the EDR2 project begins.
- FTB will complete the contractor staff onboarding process successfully and provide sufficient IT helpdesk support and SAL activities with additional resources available.
- Training will be created and developed to support FTB enterprise and local business areas who will utilize the systems impacted by the EDR2 project.
- New equipment and supplies will be acquired to implement increased OCM activities planned for the EDR2 project.
- CDT and State Technology Procurement will also be engaged to provide impartial oversight of the project to ensure the state is effectively managing their technology investments.

The EDR Project Managers work with the project oversight unit to monitor project progress and perform communication management, including status reporting consistent with stakeholder and overseer needs. The fiscal oversight of the project is the responsibility of both the Chief Information Officer (CIO) and the Chief Financial Officer (CFO).

F. Analysis of All Feasible Alternatives

Alternative 1 – Approve $72.9 million and 23 permanent and 13 limited-term positions to begin implementation of the EDR2 project in 2021-22.

This alternative represents a fully-loaded request for resources needed to successfully begin the first year of the EDR2 project, which is a multi-year project of phase 2 of FTB's TSM plan. The EDR2 project supports replacement of two legacy systems that are near end-of-life (ARCS and PASS) effectively manage the tax gap. This will be accomplished by transitioning the Audit, Legal, Filing Enforcement and Underpayment SOWs to FTB's enterprise platform and implementing new Audit, Filing Enforcement, and Underpayment strategies that will identify new revenue streams.

This alternative requests an augmentation to:

- Acquire additional permanent and limited-term Information Technology (IT) positions to support the enterprise security and helpdesk activities for the duration of the EDR2 project.
- Acquire additional permanent and limited-term enterprise business/program positions to support the increased workload generated by the EDR2 project on Training, Human Resources on-boarding process, Internal Audit, Taxpayers' Rights Advocate office, and FTB Metric Book program.
- Acquire IV&V, QA, and CDT IPOC contract services.
- Fund Organizational Change Management Activities
- Acquire Independent Security Assessment consultant service.
- Secure the contractor's compensation and 5 percent contingency compensation payments.

Alternative 2 – Approve $71.5 million and 15 permanent and 10 limited-term positions to begin implementation of the EDR2 project in 2021-22.

While this alternative may provide an appropriation for some business/program positions and make the required contractor and consultant services payments, FTB would still need additional positions to efficiently implement EDR2. Without the fully-loaded enterprise business/program position request, FTB could incur the following risks:

- Hiring effort and onboarding delays.

- Various policy, law and guideline violations

- Invalid privacy controls, leading to increased misuse and fraud cases

- Decreased revenue and public trust

- Increased security incident response costs

- Increased unauthorized access and disclosure of confidential information

- Taxpayer rights violations

Alternative 3 – Approve $69.2 million to fund 23 permanent and 13 limited-term positions, along with the contractor's and 5 percent contingency payments.

While this alternative may provide the appropriation to make the required contractor payments, the lack of the consultant services from the CDT IPOC, ISA and IV&V and QA would result in significant risks to the EDR2 project's scope, schedule, and production of anticipated revenue in the budget year and in the future. Without the fully-loaded enterprise business/program position request, FTB could incur the following risks:

- Increased administrative issues and delays that could impact the project's schedule and overall success.

- Increased security breaches and confidential data leakages.

- Unplanned and costly outages.

- Inability to properly evaluate contractor deliverables and ensure they meet EDR2 requirements and FTB expectations.

- Inability to consistently assure the department receives high quality project solutions and utilizes a proactive approach when defects are detected before a solution is implemented.

Alternative 4 – Do not approve the BCP.

The alternative delays and defers the implementation of the EDR2 project and risks the availability and opportunity of FTB to adequately complete the tasks and address legacy systems that are using outdated technology. Failure to approve this BCP will prevent FTB from beginning the EDR2 project on July 1, 2021 which will eliminate our ability to replace aging systems before end of life which could jeopardize the generation of annual revenue approaching $4 billion. FTB will not be able to meet contractual obligations associated with the EDR2 project. Any modification to the resources requested herein would need to be reevaluated by FTB and the contractor to determine the impacts to project scope, schedule and revenue of the EDR2 project.

G. Implementation Plan

- June 2021 – All documents to establish positions are prepared and approved by the Budget Officer and forwarded to the Department of Finance.

- July 2021 – Department of Finance notifies FTB of position approvals.

- July 2021 – Permanent and limited-term positions are established and FTB begins hiring.

H. Supplemental Information

None

I. Recommendation

Alternative 1 is recommended. – Approve $72.9 million and 23 permanent and 13 limited-term positions to begin implementation of the EDR2 project in 2021-22.

This alternative provides the most efficient and effective solution to meet the project and contractual needs when the EDR2 project starts July 1, 2021. This alternative is the most desirable alternative to minimize costs and risks and maximize the benefits of the EDR2 project.