

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 10/20)

Fiscal Year 2022-23	Business Unit 7730	Department Franchise Tax Board	Priority No. 001
Budget Request Name		Program	Subprogram

Budget Request Description
 Enterprise Data to Revenue Project 2

Budget Request Summary

The Franchise Tax Board (FTB) requests an augmentation of \$150.9 million and 20.0 permanent positions, 23.5 full time equivalent limited-term positions, and 21.0 permanent-intermittent positions to begin second-year implementation of 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 <input type="checkbox"/> Yes <input type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	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

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE Dept. of Technology

PPBA	Date submitted to the Legislature
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A. Budget Request Summary

The Franchise Tax Board (FTB) requests an augmentation of \$150.9 million and 20.0 permanent positions, 23.5 full time equivalent limited-term positions, and 21.0 permanent-intermittent positions to begin second-year implementation of 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.

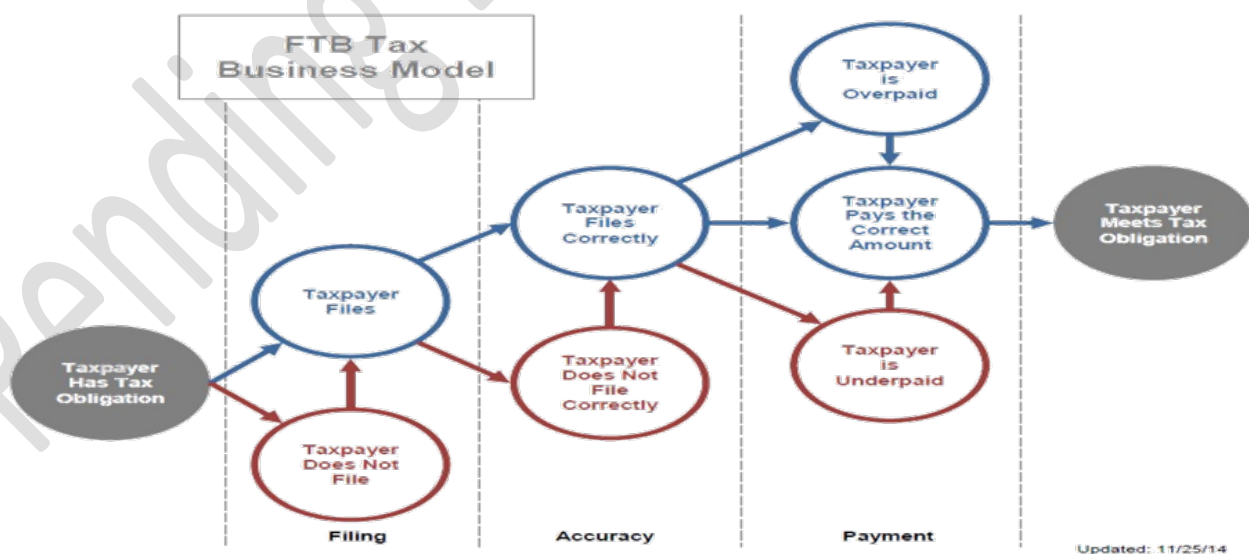
B. Background/History

FTB's primary function is to administer the California Revenue and Taxation Code (R&TC), which includes collecting the proper amount of taxes by assisting taxpayers in filing returns timely and accurately in the most cost effective manner while 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 22.5 million tax 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 revenue¹.

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



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),

¹ Revenue figures 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.

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 Information Technology (IT) portfolio that included a three-phase TSM effort to modernize FTB's systems environment and reach its strategic target architecture.

Phase 1 of FTB's TSM effort, the Enterprise Data to Revenue (EDR) project, was completed in 2016. The EDR project was successful and began to address business problems for FTB's Return Filing and Return Validation programs (specifically in the application of modeling and case management) 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 and approved builds on the enterprise data, modeling, CM platform and infrastructure provided by EDR by expanding the enterprise CM and modeling to other BSOWs including Audit, Legal, FE, and Underpayment. Phase 2 also expands the functionality for the Taxpayer Folder and MyFTB in addition to positioning FTB to decommission multiple legacy systems.

C. State Level Consideration

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 EDR2 project is vital to FTB's operations. The technology currently supporting two of FTB's major legacy systems {(Accounts Receivable Collection System (ARCS) and Professional Audit Screening and Support System (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 the EDR2 project 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. Additionally, the EDR2 project will improve efficiency and provide a better taxpayer experience while increasing revenue.

The EDR2 project supports FTB's mission to fairly and effectively administer the state's tax system and the Strategic Plan Goals of Exceptional Service, Effective Compliance, Strong Organization, and Operational Excellence.

D. Justification

The EDR project positioned FTB to more effectively address 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 deploy new tools to assist taxpayers in complying with their obligations as well as enhance FTB's compliance activities. This step will provide technology to move FTB compliance workloads to a single case management system and modeling tool as well as implementing new Audit, FE, and Underpayment compliance strategies.

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 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 4 Project Readiness and Approval (S4PRA). The S4PRA was approved on April 1, 2021 and included the EDR2 vendor selection and project approval.

The EDR2 project's Request for Proposal (RFP) was released on April 30, 2019 on the Cal e-Procure website. In May 2020, FTB received the final proposals with proposed solutions from the bidders. Contract Award to the contractor was made in June 2021. The EDR2 project start date is July 1, 2021.

The EDR2 project plans to achieve the following objectives in 2022-23:

- Utilize the new data analytic tools to support the development of new work including functionality for models, treatment paths, and data visualization (reports and dashboards);

- Perform data analysis and clean-up of the PASS application data prior to the conversion of the data into the EDR2 case management platform;
- Analyze and resolve issues with collection cases that will not convert in an automated fashion prior to contractor's automated conversion from the PIT collection legacy to new system;
- Enhance the ability to successfully select best value cases for compliance efforts and complete quality cases efficiently;
- Ensure new data fields can be captured from paper returns and other stand-alone tax forms to assist with developing potential modeling strategies and business rules which will result in increased revenue;
- Develop and implement Training and Organizational Change Management activities to support FTB enterprise including the field offices who will utilize the systems impacted by the EDR2 project implementation and changes;
- Maintain the data integrity and availability in FTB's tax systems and their ability to perform critical state tax functions;
- Pilot the first implementation of the PIT Professional Audit and Legal Case Management solution;
- Replace the solution that is used by the Underpayment BSOW to identify available assets to levy during the Personal Income Tax involuntary collection cycle; and
- Continued design and development of deliverables to be implemented in future years, including self-services and additional case management solutions.

The department requests the following resources and funding to support these activities to ensure a successful second year for the EDR2 project:

Enterprise Business Area Positions

Administrative Services Division

Digital Services Section

Information Technology Specialist I – Two permanent positions

The Digital Services Section, which manages FTB's internal and external static web content, requests two permanent Information Technology Specialist I positions to ensure that published information is current, accurate, and relevant. FTB staff facilitates access to tools, best practices, and services for building web pages for FTB. The section also guides stakeholders so they can communicate with customers, meet legal requirements, and conduct business with trust and confidence. The EDR2 project creates 22 new initiatives that require the creation or modification of ftb.ca.gov webpages, including self-service solutions as well as ongoing maintenance. These webpages provide information, next actions and instruction on how to use self-services to stakeholders including taxpayers, practitioners and business partners. Without additional positions, the section risks not being able to support the new content and products added to the website. The lack of information on FTB's website providing information to stakeholders will significantly impact the success of each new EDR2 initiative. When stakeholders are unclear on what action to take, errors and delays will occur and the anticipated efficiencies of less manual work may not be realized.

Privacy, Security and Disclosure Bureau

Information Technology Manager I – One permanent position

Information Technology Specialist II – One permanent position and one six-year limited-term position

Information Technology Specialist I – One permanent position

Staff Operations Specialist – One permanent position

Security Operations Section requests one permanent Information Technology Manager I position in the Information Security Oversight Unit, which is made up of three teams. Information Security Oversight is responsible for policy and standards compliance, solution security design review, audit, change review, and enterprise security consultation and education. Secure Audit Logging (SAL) team is responsible for development and requirements, testing, and validation of logging functionality that allows the department to comply with audit requirements and identify misuse and fraud. The Application Security team is responsible for continually assessing services for security vulnerabilities, verifying mitigations, and certifying services. The team ensures all services are secured and ready for quarterly releases to production in order to reduce risk of malicious compromise or misuse of services by threat actors.

The EDR2 solution has and will increase the scope and complexity of the workload for all three of these teams. Additionally, the unit will grow to a total of 15 staff. It is critical to make the management position for this unit permanently staffed. The current position is a temporary redirect from another business area until this BCP permanently provides a position.

Security Operations Section requests one permanent Information Technology Specialist II position to perform the duties related to the application security assessments. Applications and services designed and implemented by the EDR2 solution are required to be reviewed for security vulnerabilities, mitigations verified, and the services security certified for release to production. This function reduces risk of compromise or misuse of the service by threat actors. This additional position is needed to support the initial and ongoing application security assessments necessary to securely release the services that the EDR2 solution will provide.

This work starts when initial service testing starts and therefore is not needed with the initiation of the project but when the first code deployments are ready to be tested. The scope of the workload is all new applications and services, and modifications to existing services. The workload is ongoing through the life cycle of all services the solution provides, not just the end of the project. The high level of development workload that the vendor will be doing results in a significant increase in application security assessment workload. The current team cannot absorb the workload because of the scope and complexity required of the EDR2 solution, and the team must oversee the continued work that FTB is doing for maintenance and operation of existing services. The EDR2 solution is not a one for one replacement. Just for external services there are currently at least 29 new Notice Authentication & Action, Online Application functions, and enhancements to current online services. Each one of the enhancements means additional security vulnerability review, mitigation verification, and security certification for the initial implementation and ongoing for the life of the services as they are changed, update, or enhanced.

Security Operations requests one Information Technology Specialist II six-year limited-term position performing the duties related to manage the Independent Security Assessment (ISA) consultant tasks including developing the annual statement of work, onboarding vendor personnel, managing all tasks associated with the ISA,

documenting all findings, developing and documenting plans of action and milestones throughout the project as well as performing post warranty period.

Post assessment tasks include:

- Assessing risks related to findings
- Consulting with technology areas on the security findings
- Collaborating on solutions to remediate findings
- Documenting solutions in a plan of action
- Enterprise communication
- Formalizing documentation in FTB's Governance Risk and Compliance System and Knowledge Transfer

The Information Technology Specialist II also needs to be involved in day to day development of EDR2 project to ensure systems and processes contain appropriate security measures and the required security controls are in place. Security detailed design requirements will be developed for every new or updated IT system, project and process. The technical detailed design requirements will start in earnest during the second year of the EDR2 implementation effort. The new EDR2 solution will also drive substantial new mandatory compliance work related to risk management functions (i.e. POAM, variance work).

Security Services and Compliance Section requests one permanent Information Technology Specialist I position performing the duties related to the internal application misuse investigations. Applications and services designed and implemented by the EDR2 solution are required to have SAL implemented with their solution. 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 audit logs will also increase, which will trigger more alerts that require response and analysis, which will include conducting investigations. This function logs user activities in the applications and services enabling FTB to identify misuse and/or criminal activity. The security audit logs are then used by the Information Security Audit Unit (ISAU) to create alerts in order to detect, respond to, and investigate misuse and/or criminal activity. The security audit logs also allow ISAU to complete data analysis to uncover patterns of misuse. Early detection and analysis of patterns and schemes is necessary to prevent misuse, which includes unauthorized access and disclosure of confidential taxpayer information. The work starts when the internal user (employee, vendor, and other agencies) access the application or service.

ISAU is not able to absorb the workload due to volume and complexity of the new applications and services which will require alerts to be created, and because the team must continue incident response for the existing applications and services. For the EDR2 solution's external services only, there are at least 29 new Notice Authentication Services, Online Application functions, and enhancements to current online services. Each of the enhancements requires security audit logging, which in turn requires alerting and incident response by ISAU.

Security Services and Compliance Section requests one permanent Staff Operations Specialist position performing the duties related to the worksite security responder. Worksite Security Section (WSS) is responsible for all the daily physical security operations and emergency response actions for FTB's central office campus and field offices nationwide. The requested position is required to address the increasing

number of incidents each year. There is a direct correlation between FTB staffing volumes and volume of incidents. In order to ensure safe and secure workplaces, immediate incident response, and accurate risk assessment additional staffing is crucial.

WSS's goal is to proactively mitigate threats and risks as many incidents can be prevented, avoided, and reduced with appropriate staffing. Immediate and effective response has a direct impact on the safety, security and quality of the workplace. Currently FTB has approximately 6,600 employees nationwide, approximately 400 vendors, and other state agencies at the central office with only two emergency responders for the entire enterprise. To support FTB's nationwide operation, FTB staff hours are staged to start from as early as 3:00 AM until as late as 6:30 PM for most operations, with some 24 hour operations at the central office.

Performance Management/Progressive Discipline Section

Associate Personnel Analyst – One permanent position

Business and Human Resources Bureau requests one permanent Associate Personnel Analyst position in the Performance Management/Progressive Discipline Section performing the duties related to the ongoing evaluation and performance management for the additional EDR2 project staff. There is also compliance management for the vendors that will require performance management services. If the performance management is not supported proactively, there is substantial risk to the department due to potential policy violations.

Personnel Services Section

Associate Personnel Analyst – One permanent position

Business and Human Resources Bureau requests one permanent Associate Personnel Analyst position in the Personnel Services Section (PSS). The PSS supports all FTB staff encompassing pay, benefits, and oversight of all available leave options. The increase of staff due to EDR2 project will inherently result in higher volume of cases and a greater outreach effort and operations impact in PSS. These impacts include increased risk/requests in Workers' Compensation claims and Medical Leave of Absence applications which encompass coordination of numerous job protections and wage replacements. The Associate Personnel Analyst will be responsible for resolving the increase in cases and outreach efforts, impacts and monitoring laws, rules, regulations, control agency directives and MOU's to ensure compliance and limit departmental liabilities.

Business Services Section

Skilled Laborer – One permanent position

Business and Human Resources Bureau requests one permanent Skilled Laborer position in the Business Services Section (BSS). The BSS supports FTB staff by providing quality mail, warehouse, and support services. The Skilled Laborer will perform the following tasks:

- Cubical and conference room set-up and configuration for training, meetings, and special events;
- Mail and confidential destruct collection and transport; and
- Operate industrial trucks.

The increase of employees and vendors due to the EDR2 project will inherently result in more events and training on campus causing operational impacts in BSS. These impacts include increased risk and requests from the ergonomic workload that encompasses installment and adjustment of workstations, in addition to an increase in volume of mail and destruct.

Health and Safety Unit

Staff Services Analyst – One permanent position

Business and Human Resources Bureau requests one permanent Staff Services Analyst position in the Health and Safety Unit. The position will provide support to FTB's employees and vendors. FTB has seen and anticipates a significant increase in three major workloads:

- Reasonable accommodations via workstation evaluations;
- Break/fix of ergonomic equipment; and
- Health and safety training.

FTB is required by The American with Disabilities Act of 1990 to respond to reasonable accommodation requests as quickly as possible. These time sensitive workloads may cause an increase in Workers Compensation claims, delay in the reasonable accommodation process, work stoppages, and a delay in employees receiving safety training timely as required by California Code of Regulations, Title 8, Section 3203. This puts FTB at increased risk of liability. The Staff Services Analyst will be responsible for addressing the increase in workloads.

Data Analytic Function (Various Divisions)

The EDR2 project will provide new and enhanced data analytic tools that will allow the business areas to perform functions that are currently limited and most often require IT support to implement. These functions include performing modeling activities to identify and implement new compliance strategies, identify and implement more effective and efficient treatment paths for taxpayers and visualize data in the form of reports and dashboards. Users will be able to self-serve and use data from the Enterprise Data Stores to create and modify compliance models, analytic models, customer segments, trend analyses, dashboards, and reports. The enterprise will be utilizing these tools to improve accuracy and compliance in their respective programs. Business Areas that support the enterprise will also use the enhanced tools. FTB's Data Management and Governance Strategy will support the tools and data that the EDR2 project will provide. This strategy involves the users being more involved in the acquisition and quality of data. This will ensure that data that is used by the business is being acquired and is delivered to users in a way that is correct and meaningful. Each business area will take an active role in data governance.

In support of the EDR2 project, FTB requests permanent resources in the second year to aid in the design and implementation of the new tools and to utilize the new and enhanced data analytic tools and realize the full potential of EDR2 new models, strategies, and products to increase automation and process efficiencies.

Audit Division

Data Analytics and Innovation Program

The Audit Division is responsible for examining returns that may be incorrect and/or non-compliant. Due to the volume of returns filed each year and the limited resources

of the state, it is not possible to examine all returns filed. The Audit Division uses the available data to select returns for audit that have the highest likelihood of non-compliance and are the most cost effective use of state resources. The EDR2 project will bring new and enhanced tools and data that will enable FTB to improve audit selection processes. These selection processes are a critical function that allows the Audit Division to best use its resources to bring additional revenue to the state.

Audit Services, Administration, and Protest Bureau

Administrator IV – One permanent position

Administrator III – One permanent position

Program Specialist III – Two permanent positions

The Audit Services, Administration, and Protest Bureau requests one Administrator IV (AD IV) permanent position to establish the Audit Division's new Data Analytics and Innovation program. As the Assistant Bureau Director, the AD IV will be responsible for overseeing that the division's processes associated with data quality, modeling, case selection, trend analyses, and predictive forecasting are centralized and optimized. The position will also be responsible for the efficient use of that data, and timely reporting of the Audit Division's analysis and trends to the enterprise and external control agencies. This program will utilize the new and enhanced EDR2 project business data and analytical tools that will springboard Audit Division's analytic capabilities from traditional business intelligence activities to predictive analytics for forecasting future patterns and prescriptive analytics that help determine the optimal course of audit actions undertaken. The Data Analytics and Innovation program will create expert models, analytic models, taxpayer segmentation analyses, new compliance/marketing campaigns, trend analyses, dashboards, and reports that will be used to increase the audit compliance activities which generate significant revenues for the state.

Due to the critical importance of case selection for the division, and the sensitive nature of taxpayer information that will be used, FTB is requesting an AD IV to establish the program and policies, as well as, spearhead the audit division's data analytics and innovation activities. The program's activities will support all of the case selection functions for all professional audits conducted nationwide including the wealthiest Californians and the world's largest corporations. These modeling activities are currently separated and in silos, but with the new and enhanced modeling tools and increased access to data by business users during and after EDR2 project implementation, the division will be able to centralize and optimize these division efforts. The program's activities will also support the development and enhancements of the automated and semi-automated audit workloads that rely heavily on data from the IRS and state returns. The Audit Division will be increasing its contacts of taxpayers through the use of new audit strategies when new compliance/marketing campaign functionality is delivered in the EDR2 project. The AD IV will provide policies and processes for these new workloads. The AD IV will work through subordinate supervisors to provide oversight of the program and to establish performance objectives and resolve work related challenges as they emerge. The AD IV will also provide oversight of the existing programs in the bureau. These programs include the division's Budget and Administration Services section that manage all tasks related to the division's work plan and budgetary items, the Protest section that handles protests originating from professional audit workloads that aren't docketed by the Legal Division, and the centralized training program that handles all training activities for the division.

The Audit Services, Administration, and Protest Bureau requests one Administrator III (AD III) permanent position to manage the Audit Division's Data Analytics and Innovation program. As the program manager for the division's Data Analytics and Innovation program, the AD III will be responsible for planning, organizing and directing the various activities within the Data Analytics and Innovation program. This includes setting priorities, establishing business goals, and allocating resources to ensure analyses, studies, and compliance approaches are completed efficiently and timely. The AD III assists with the development and maintenance of accurate reporting systems and works through subordinate managers to ensure quality work products are delivered, while maintaining data security and usage requirements. In addition, the AD III will have oversight responsibility for FTB's existing data exchange program with the IRS. This program is managed through subordinates and supports all enterprise requests for IRS data as well as the receipt, reporting and tracking of IRS data used in division's compliance programs.

The Audit Division requests two Program Specialist III permanent positions to develop the start of the division's data analytics and innovation program as the new EDR2 data analytics capabilities are being designed and become available. The Audit Division's Data Analytics and Innovation program will utilize the new and enhanced existing data analytic EDR2 tools that will allow the business areas to perform functions that are currently limited and most often do not exist or currently require IT support to implement. These functions include performing modeling activities to select best cases to audit, identify and implement new compliance strategies, identify and implement more effective and efficient treatment paths for taxpayers and visualize data in the form of reports and dashboards. The two Program Specialist III positions are being requested to support this program. These highly technical analysts, with significant knowledge of the audit program and income tax laws, will create expert analytic models, new compliance/marketing campaigns, trend analyses, data dashboards and reports that will be used to increase audit compliance activities which ensure all taxpayers pay the correct amount of tax.

The Program Specialist III will be responsible for:

- Performing the most complex data analytic functions to identify trend analyses, create and support EDR2 new audit expert and analytic models, develop new audit strategies such as self-correct and self-audit letters, and create data visualizations such as dashboards and reports and data plotting for management decision making.
- Identifying new auditing opportunities and discovery efforts to address emerging trends for income tax reporting using their income tax law background. With assistance from workload SMEs, the Program Specialist III will assist with developing and evaluating these opportunities as well as evaluating sources for collecting data that will improve Audit Division operations.
- Utilizing current and new EDR2 tools, the Program Specialists III will identify taxpayer segments using statistical and data visualization platforms to leverage educational outreach and marketing campaign efforts to encourage taxpayer self-compliance. This includes conducting or overseeing complex data-driven studies aimed at improving the Audit Division's operations.
- Acting as a resource to compliment expert model and inventory development. The Program Specialist III will evaluate and troubleshoot expert model effectiveness to improve sustainability of audit cases. The Program Specialist III will

also assist Audit management with developing division specific data governance strategies to ensure data is managed and consumed in a manner that protects taxpayer confidentiality and promotes audit efficiency. As data becomes more of an enterprise-wide asset, the Program Specialists III will serve as Business Data Owners or Line of Business Data Stewards to evaluate current and new third party data sources, ensure data is fit for business use, and resolve data quality issues in collaboration with TSD. They will also represent the Audit Division on enterprise teams, committees, and projects when necessary.

- Advising and assisting with documenting business requirements to improve the systems surrounding the new EDR2 tools. The Program Specialist III will also assist with identifying data not presently captured from current and future tax forms that may be needed to improve case selection or model effectiveness. The Program Specialists III will work closely with business area SMEs to write requirements and submit change requests to ensure improvements are addressed timely, follow enterprise protocols, and are properly prioritized against other requests in the enterprise.
- Performing predictive, descriptive, and prescriptive analyses and utilizing the results to advise executive management and evaluate new audit strategies and existing workloads to promote compliance. Such findings will assist executive management in communicating areas of concern to the public, as well as, strategize allocation of resources to combat areas of non-compliance via the new audit strategies.
- Advising senior audit program management on any findings collected from research and data analyses. Sharing extensive knowledge of the tax law, so that new audit strategies, as well as, existing workloads can be evaluated more efficiently and effectively. This advice will help senior audit program management prioritize division workloads and determine what strategy to use to promote compliance.

Accounts Receivable Management Division

The Accounts Receivable Management Division (ARMD) is requesting resources to support FTB's EDR2 project. The Underpayment System of Work is primarily housed within ARMD. The Underpayment's PIT Compliance Systems will be replaced in FY 2023-24 and the BE Compliance Systems will be replaced in FY 2024-25. The compliance systems being replaced include those systems that support case management and data visualizations (i.e. reports and dashboards). In addition, EDR2 project will introduce new functionality that allows business users (without IT support) to be able to create compliance/marketing campaigns, identify customers to support more effective treatment paths, create and modify analytic models, and perform trend analysis to help in managing inventory and resources.

Advisory, Analysis & Services Bureau: System Analysis Team

Research Data Specialist II – One permanent position

Research Data Specialist III – One permanent position

ARMD requests one permanent Research Data Specialist II position and one permanent Research Data Specialist III position to perform the data analytics necessary to ensure the ARMD and FTB will realize the full benefit of the new EDR2 data related user functionality. These positions will augment the System Analysis Team (SAT) existing positions. The SAT, currently, supports ARMD's business areas data and analysis

to develop solutions to system issues and enhancements. These systems include the legacy collection and accounting systems for PIT, BE Tax, and Non-Tax Debt collection programs, as well as, the contact center platform. Currently, the SAT collaborates with IT staff to provide data and analysis to implement solutions or enhancements needed by the ARMD programs. The EDR2 project will bring new functionality to the business user that will increase the SAT workloads. This new work includes functionality for a business user (without IT assistance) to create models, customer segmentation, treatment paths, and data visualizations (reports and dashboards). Specifically, these positions will:

- Work collaboratively with the exiting SAT analysts, EDR2 vendor and EDR2 project team to support the development of replacement functionality;
- Work collaboratively with the EDR2 vendor and EDR2 project team to develop new functionality;
- Provide ongoing support and validation for new functionality delivered from the vendor;
- Support the development of new functionality that will not be completed by the vendor to support continuous improvement; and
- Perform complex data analytic functions to support ARMD's continuous improvement to support efficient and effective collection activities.

The Research Data Specialist II will be responsible for:

- Performing complex data analytic functions to create and support EDR2 new models, treatment strategies, and data visualizations;
- Planning, organizing, and directing complex, data-driven studies to improve collection program operations;
- Using new/enhanced EDR2 tools to collect, query, mine and manipulate data to resolve collection program-related issues and monitor new models and treatment paths;
- Creating new data visualizations to support collection program goals; and
- Advising senior collection program management on collection trends resulting from research.

The Research Data Specialist III will perform the same tasks as the Research Data Specialist II. In addition, the position will be responsible for:

- Performing the most complex data analytic functions to create and support EDR2 new models, treatment strategies and data visualizations;
- Designing and evaluating projects using rigorous scientific methods and statistical analysis to support the operational and quality improvement initiatives;
- Using a variety of study designs to support improvement science including quasi-experimental studies with concurrent controls; using multiple methods of statistical analysis of collection model improvement delivery science including interrupted time series, statistical control charts, logistical regression, etc.;
- Providing oversight to complex data-driven studies to improve collection program operations;

- Providing oversight on using new/enhanced EDR2 tools to collect, query, mine and manipulate data to resolve collection program-related issues and monitor new models and treatment paths;
- Identifying new strategies and sources for collecting data that will improve the collection program;
- Advising senior collection program management on industry collection trends resulting from research and data analysis;
- Creating and leading the collection program's data governance strategy;
- Serving on enterprise data governance committees and participating in enterprise research and data analysis projects; and
- Advising executive management on complicated research and studies as a top expert in collection program performance and how it integrates with enterprise programs.

Legacy System Data Clean-Up/Conversion Function (Various Divisions)

PASS was designed to support audit tasks and serve as Audit Division's case management system for electronic audit files. The PASS application was implemented in 1998 and has since evolved to support case functionality for multiple business areas within FTB. The PASS application currently contains over 1 million case units with 108,000 open cases units and 942,000 closed case units. The EDR2 project will transition the PASS application data to the new case management platform in FY 2023-24.

The ARCS is a legacy case management system that includes PIT and BE Tax delinquent debts and collection/contact history. The PIT Collection System houses approximately 3.47 million taxpayer collection accounts. The EDR2 project will replace PIT Collection System in FY 2023-24 and ARCS cases will be converted to the new case management system.

In support of the EDR2 project, FTB requests limited-term resources in the second year to perform the legacy system data clean-up/conversion activities.

Audit Division

Tax Auditor - Four two-year limited-term positions

The Audit Division requests four Tax Auditor two-year limited-term positions to perform data analysis and clean-up of the PASS application open case unit data prior to the conversion of the data into the EDR2 case management platform. These positions will also perform post conversion validation of case unit data in the new case management system. These positions need to be knowledgeable of the PASS system and the various case components in order to understand the accuracy and completeness of data elements needing conversion. Ensuring the data's integrity during and after the conversion process is essential to the overall success of the project to replace the legacy Case Management (CM) system and may impact future modeling activities.

Currently, the vendor expects the audit case management solution to begin in January 2023. The conversion data clean-up activities will start no later than July 1, 2022. The four Tax Auditor positions need to be in place July 1, 2022 in order to perform the PASS data analysis and cleanup essential to ensuring the data is ready for the conversion processes. The data will be analyzed to create an automated conversion plan. Business rules will be put in place to automate the conversion from the legacy Data System to

the Enterprise Data Store for use by EDR2. However, with such a large volume of data there will be instances that require manual intervention to perform clean-up in the legacy system before conversion can take place. The clean-up will take place in preparation for implementation of the solution during the System Development Lifecycle. It is anticipated a small percentage of cases may need manual clean-up, but due to the size of the data contained in each case, review and preparation will be time consuming.

Accounts Receivable Management Division

Compliance Representative – Seven two-year limited-term positions

ARMD requests seven two-year limited-term Compliance Representative positions beginning January 2023 to manually analyze and resolve issues with collection cases that cannot be automatically converted to the new solution prior to, and after the vendor's automated conversion from the PIT collection legacy to new system. In FY 2022-23 the new staff will attend classroom training for the first eight weeks, followed by pre-conversion activities for the remainder of FY 2022-23. In FY 2023-24, the new staff will work on post-conversion activities.

The Compliance Representatives will perform the following tasks:

- Analyzing and resolving issues with accounts in the legacy collection systems to ensure data integrity and maximize the effectiveness of the automated data conversion to the new case management system;
- Tracking and reporting common issues to assist with account conversion; and
- Analyzing and resolving accounts in the legacy collection system that did not convert to the new case management system.

Paper Data Capture Function (Various Divisions)

The EDR2 project will deliver data capture functionality focusing on capturing new data fields from paper returns and other stand-alone tax forms to assist with developing potential modeling strategies and business rules. As a result, additional staff are needed to validate and verify data rules and modeling efforts to ensure reliance on this data for compliance purpose is supportable.

In support of the EDR2 project, FTB requests permanent, limited-term, and permanent-intermittent resources in the second year to develop, identify, and analyze the new data captured in addition to utilizing the new data for developing new compliance strategies and improve current compliance strategies.

Filing Division

The Filing Division's request of positions for FY 2022-23 are directly justified to EDR2's deliverables that include new data capture. These deliverables focus on capturing fields from paper returns and other stand-alone forms that FTB has not captured, stored, or used before. This new data will be used to develop new compliance strategies and improve current compliance strategies allowing FTB to ensure taxpayers pay the correct amount of tax. Having these additional fields to capture, validate, and verify will create additional noticing directly related to the new data captured.

Consequently, the request for additional resources reflect hours needed toward capturing these new paper data fields; from the tax form design and development tasks, to the paper return schema tasks, to substitute forms tasks, working with FTB's

industry partners so the new fields are identified, to keying the data, validating the fall out and producing the notices.

Information Capture & Banking Section

Key Data Supervisor I – Two permanent positions

Tax Program Supervisor – Two permanent positions

Key Data Operator – Twenty-one permanent-intermittent positions

The Information Capture & Banking Section requests two permanent Key Data Supervisor positions to act in a lead capacity to Key Data Operators (KDO) and are required on an ongoing basis to provide technical assistance to KDO staff. They also complete tasks in queues requiring review, in addition to actually working some of the most complex queues. Without these positions, the paper data capture of new fields will not be realized, nor the noticing and revenue associated with the timely capture of these fields.

The Information Capture and Banking Section requests two permanent Tax Program Supervisor positions to organize and direct the team activities and provide direction to staff regarding what workloads to focus on. In addition, these staff run reports and provide statistical feedback regarding the KDO's production to ensure staff are meeting expectations. These positions are needed to accommodate the increase in staffing.

The Information Capture and Banking Section requests twenty-one permanent-intermittent Key Data Operator positions to be responsible for data capture for additional fields on the state income tax returns. New workloads for data capture include information on state tax returns, federal tax returns, and on stand-alone forms. Without these positions, the paper data fields captured will be extremely delayed or not done impacting EDR2 compliance initiatives.

Tax Forms Development and Distribution Section

Associate Operations Specialist – One two-year limited-term position

Associate Tax Auditor – Two two-year limited-term positions

Program Specialist II – One two-year limited-term positions

The Tax Forms Development and Distribution Section requests one two-year limited-term Associate Operations Specialist position that will be responsible for updating tax forms, specifications for scanable, substitute, 2D and absolute position forms which will be sent through the department review process. This position will perform additional testing and provide approval of vendors' forms for the new data capture fields. The new data capture fields affects 25% of the substitute forms, which require updating.

The Tax Forms Development and Distribution Section requests two two-year limited-term Associate Tax Auditor positions that will be responsible for updating tax forms to include new data capture keying symbols, verify changes to forms, send forms through the departmental review process, and perform accessibility testing.

The Tax Forms Development and Distribution Section requests one two-year limited-term Program Specialist II position that will be responsible for technical and policy review of tax forms and provide approval for "Ok to Print" which is the final hurdle to the publish a tax form. This position will facilitate department-wide implementation of new data captures fields, work with Audit Division and TSD for accurate data mapping and developing Return Analysis (RA) rules for PIT and BE. In addition, they will assist Audit Division in developing modeling.

Without these positions, the above EDR2 deliverables will not be achieved, the paper data fields will not be captured, resulting in an impact to the anticipated new revenue for the state.

e-Program and Budget Section

Information Technology Specialist I – One two-year limited-term position

The e-Program and Budget Section requests one two-year limited-term Information Technology Specialist I position which is required in order to meet EDR2's new data capture fields deliverable. The initial implementation of the schema work requires a resource for two years; however, once all the initial schema work is completed; ongoing maintenance does not require an ongoing permanent resource, thus the limited-term request. This specialist will develop schema design and changes in order to ensure the department captures, maps and stores these new fields. Without the schema development to capture these fields from paper returns, FTB will not be able to utilize the data downstream for processing, modeling, noticing or revenue goals.

Information Validation Section

Tax Program Technician I – Overtime

The Information Validation Section requests overtime funding of \$32,000 for existing Tax Program Technician I's which will allow staff to manually validate PIT tax returns and payments that fall out of the system. These additional hours of overtime correlate with the additional new data capture fields implemented by EDR2. Without the overtime hours, processing of tax returns and payments affected by the new fields, are at risk by delaying the time frame of resolving the validation issues identified during processing. In addition, FTB will not generate as many notices (bills) to taxpayers that are expected to occur based on the new fields being captured and processed. Both the issuance of bills and refunds will be in jeopardy if this overtime is not received.

Training and Procedure (Various Divisions)

Training and procedures are critical to the EDR2 project to ensure enterprise and field office staff are trained and understand how to perform their job with EDR2 project implementation and changes. FTB needs to have adequate resources to continue to manage procedures, training materials, and training classes with the significant new processes and solutions being introduced to ARMD and Filing Division as a result of EDR2.

In support of the EDR2 project, FTB requests limited-term resources in the second year to manage training and procedure activities at both the enterprise and local level.

Administrative Services Division

Enterprise Function: Enterprise Talent Development Section

Senior Operations Specialist – Four four-year limited-term positions

Administrator I – One four-year limited-term position

Administrator II – Funding Upgrade \$12,000

Enterprise Talent Development Section requests four Senior Operations Specialist four-year limited-term positions to provide in-classroom training regarding new enterprise EDR2 functionality. These positions will deliver the functionality training developed by vendor/Enterprise Procedures & Training Team (EPT) and division specific local training will be completed at the business area level. Without the positions, the enterprise will be unable to coordinate and provide the enterprise training to staff on new EDR2

functionality ensuring consistent information is shared throughout the enterprise. Inadequate training will result in difficulties adapting to new functionality and implementing in procedures and processes, which will impact customer experience, enforcement efforts, and revenue.

Enterprise Talent Development Section requests one Administrator I four-year limited-term position and permanent funding to upgrade an existing Administrator I position to an Administrator II. The primary focus of the Administrator I position is to provide supervisory support for the Enterprise Training team. This position will be responsible for providing supervision for the additional ten limited-term positions that will be hired to develop curriculum and deliver training to the enterprise over the life of the EDR 2 project. Currently, the Administrator I position managing the Enterprise Procedures and Training Program oversees 13 staff ranging from Associate Operations Specialist to Senior Operations Specialists. With the addition of the EDR2 project staff, both permanent and limited-term, will cause span-of-control issues in a high visible unit who is responsible for the department's procedures and training programs. The Administrator will provide leadership, guidance, and oversight to staff who are responsible for managing procedures, training materials, and training classes with the significant number of new processes being introduced as a result of EDR2. Lessons learned from EDR drive this request to increase support efforts of this nature.

The Administrator II position will ensure alignment between the FTB business functions and strategies, and the products developed and delivered by the Enterprise Procedures and Training teams. This position will collaborate with high level FTB groups such as: the Enterprise Training Council (ETC), Enterprise Process Team (EPT), Change Management (CM), Enterprise Analysis & Training Support (EATS), and FTB business areas to ensure business and employee needs are met and the EDR2 project moves forward efficiently. Due to the requirement of high-level collaboration and decision making across the enterprise, the Administrator II classification is most appropriate for this role.

Accounts Receivable Management Division

Local: Advisory, Analysis and Services Bureau

Senior Compliance Representative – Two five-year limited-term positions

Principal Compliance Representative – One five-year limited-term position

ARMD requests two five-year limited-term Senior Compliance Representative positions and one five-year limited-term Principal Compliance Representative position. These positions will augment ARMD's Career Center's existing positions to facilitate the development and presentation of EDR2's training to 1,225 staff in the tax program on the new systems and functionality. 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. This training will be delivered to 1,054 tax collection staff at FTB's central campus and another 171 field collection and public counter staff in five public field offices throughout California. In addition, these positions will be responsible for:

- Working collaboratively with the existing Career Center Trainers and EDR2 vendor staff to represent ARMD's program area-specific training needs;
- Working collaboratively with the Career Center Trainers to update existing training modules and procedure manuals with EDR2 changes; and

- Serving as ARMD's EDR2 training point of contact for the department and oversee all ARMD EDR2 program area-specific training activities.

The two Senior Compliance Representatives (trainers) will be responsible for:

- Joint Application Development (JAD) sessions/dry runs/Training-for-Trainers (T4T):
 - Working collaboratively with the EDR2 vendor and project team to analyze, test and deliver products, including a training environment;
 - Ensuring the new EDR2 design incorporates collection needs and processes;
 - Attending JAD sessions and dry runs to help perfect training materials; and
 - Conducting and attending T4T to roll out training throughout the ARMD.
- Perform/deliver training:
 - Attending, analyzing, and reviewing new enterprise training developed by the vendor;
 - Using knowledge gained from enterprise training to create and maintain collection program specific training;
 - Creating and providing Web Based Training (WBT) and instructor-led training for all ARMD tax program area workloads; and
 - Coordinating training efforts at FTB's central office and field offices, including:
 - Managing PC training rooms;
 - Tracking collection staff training attendance;
 - Coordinating with ARMD existing new hire training, including field offices;
 - Modifying and maintaining systems training for new collectors and public counter staff;
 - Updating existing training modules impacted by EDR2 implementation and changes; and
 - Developing training for other areas within FTB that will use collection systems.

The Principal Compliance Representative (training lead) will perform the same tasks as the Senior Compliance Representatives. In addition they will be responsible for:

- Reviewing the work produced by the team of Senior Compliance Representatives (trainers) for consistency and accuracy;
- Attending JAD sessions to ensure all EDR2 changes are considered and addressed by the ARMD EDR2 training team in regards to the collection program's training modules and manuals;
- Overseeing the coordination of EDR2 training across the ARMD;
- Ensuring that all EDR2-related communication is accurate and distributed timely; and
- Becoming the ARMD's point of contact for all EDR2 training-related communication for the department.

Filing Division

Local: e-Program & Budget Section

Senior Compliance Representative – Two five-year limited-term positions

The e-Program & Budget Section requests for two five-year limited-term Senior Compliance Representatives will be imperative to successfully implementing all EDR2 applications to Filing Division staff of over 1,600 permanent employees. These technical trainers will be required to train on local procedures related to all EDR2 applications, including enhancements to Taxpayer Folder, CM, and MyFTB. Additionally, these trainers are required to attend JAD sessions, T4T, implementing and training of computer based training, and instructor led training classes for the major application implementations of Audit, Underpayment and Filing Enforcement. Because the Filing Division supports FTB's main customer service center, all customer experience enhancements within EDR2 will also be trained through these two positions. Additionally training staff is required in order to train the entire division as new EDR2 functionality is implemented and the work processes and procedures change for the employees.

Additionally, the Filing Division on boards hundreds of new employees, annually, who will also need EDR2 training in addition to new hire training. With the increase in Filing Division's permanent staff, the division projects annual training classes, which onboard new employees to the EDR2 application, among other baseline training, may increase from three to four classes annually. Senior Compliance Representatives will be responsible for learning new system functionality, creating local training materials and procedures, and providing local training for the workloads resulting from EDR2 project.

Operating Expenses and Equipment

Compensation Payments to the Contractor – \$132.5 million

This funding is necessary to ensure FTB can pay the contractor for services performed. The EDR2 contract is a fixed price contract. The state must pay the contractor seventy (70) percent of the cost of the functionality that has been delivered and accepted by the state. The remaining thirty (30) percent of this cost is subject to the state realizing benefits. The compensation payable cannot exceed costs incurred and is subject to various caps under the terms of the contract. The amount payable is calculated using the total cost of the state-accepted and successfully deployed compensation deliverables. For the second year, the maximum potential payment for the 2022-23 contractor compensation is estimated at \$132.5 million assuming the vendor was already paid for cost incurred in 2021-22 and the state realized enough benefits to cover the costs incurred in 2022-23. These costs have been reduced by the statutory holdback amount deployed across the entire project.

Total compensation paid must not exceed the Total Contract Amount (TCA) in any quarter or year. The cumulative amount of compensation paid out over the term of the EDR2 contract must not exceed the percentages of the TCA, listed below, which is inclusive of the required withholding rule:

- a. 5 percent of the TCA at the end of quarter one (1) through quarter two (2) of the EDR2 contract;
- b. 15 percent of the TCA at the end of quarter three (3) through quarter four (4) of the EDR2 contract;
- c. 34 percent of the TCA at the end of quarter five (5) through quarter six (6) of the EDR2 contract;
- d. 44 percent of the TCA at the end of quarter seven (7) through quarter eight (8) of the EDR2 contract;

- e. 55 percent of the TCA at the end of quarter nine (9) through quarter ten (10) of the EDR2 contract;
- f. 65 percent of the TCA at the end of quarter eleven (11) through quarter twelve (12) of the EDR2 contract;
- g. 75 percent of the TCA at the end of quarter thirteen (13) and fourteen (14) of the EDR2 contract;
- h. 84 percent of the TCA at the end of quarter fifteen (15) through quarter sixteen (16) of the EDR2 contract;
- i. 92 percent of the TCA at the end of quarter seventeen (17) through quarter eighteen (18) of the EDR2 contract; and
- j. 100 percent of the TCA at the end of quarter nineteen (19) through the end of quarter twenty-two (22).

Under the terms of the contract, FTB will seek an appropriation equivalent to the maximum potential payment for any year. This is a requirement even in years where the contractor's projected revenue for the year is not estimated to be sufficient to cover the maximum payment and therefore will bar payment of the maximum amount. Full and robust information is not known to accurately determine the revenue on which payment is based and in the event projections are lower than actuals and the vendor is entitled to a higher payment, this strategy will allow FTB and the state to accurately compensate the vendor for reimbursable amounts.

As the maximum payment may not be due and payable in any one year, FTB is requesting the following annual provisional language to allow for any funding not used to carry over to the next fiscal year.

Of the funds appropriated in this item for EDR2 vendor compensation, any unused amount is allowed as one-time carryover funds to the subsequent fiscal year to support the vendor payment due to the solution provider for services performed and subject to payment.

In FY 2022-23 the contractor tasks include EDR2 project management activities; 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 (in the form of compensation deliverables); data conversion; and operational support for implemented business functionality.

Contingency Compensation Payments to the Contractor

Under the terms of the contract, up to 5% of the total contract amount should be funded for unexpected contingencies. This contingency amount 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. To meet the terms of the contract and protect all parties to the contract, FTB will annually request \$5 million or 5 percent of the vendor compensation payment, whichever is greater, as an annual appropriation through December 31, 2026, not including the maintenance and operations portion of the contract. Annually, any unused amount will be subject to re-appropriation in the following years and available for expenditure over the life of the 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.

For 2022-23 fiscal year, FTB requests \$7 million as a contingency payment. Additionally, FTB is requesting the following annual provisional language to allow for any funding not used to carry over for to each succeeding fiscal year over the life of the project.

Of the funds appropriated in this item for EDR2 contingency payment, any unused amount is re-appropriated in the next fiscal year and each subsequent fiscal year over the life of the project until utilized. All amounts unused at the end of the project shall revert to the General Fund.

New contractor laptops and software – \$101,000

To support the EDR2 project objectives, as reflected in the EDR2 SOW, for contractor staff, including personal computers with approved state applications, telephones, and access to printers, copiers, and office supplies.

The hardware and software are key to the project operations. The laptops and software will be utilized by FTB staff and contractor consultants for the EDR2 project to plan, design, build, test, and deploy the EDR2 solution. Funds are requested for 37 additional laptops, and the basic FTB standard and non-standard software that needs to be installed on laptops to allow the consultants to do the job and also to comply with FTB security requirements. These hardware and software elements must be secured for the EDR2 project to achieve the strategic goals of EDR2 project and to meet the state's Statement of Work (SOW) mandate.

Non-Standard Server Software - \$71,000

To support the EDR2 project objectives as reflected in the EDR2 SOW, FTB is responsible to provide necessary non-standard server software to be used during the implementation of the EDR2 solution. The non-standard server software will be used by software development staff to manage and deploy software code and will be used by testing staff to create, update, manage, and execute testing scripts. The non-standard server software must be secured to ensure FTB meets its EDR2 SOW requirements and to ensure the necessary tools to deliver a quality EDR2 solution are in place.

Independent Verification and Validation (IV&V) and Quality Assurance (QA) Consultant Service – \$3.5 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 on-going 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.

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 begin June 2021 and conclude when the EDR2 solution is implemented in December 2026. QA services begin July 2021 and conclude when deliverables are met in December 2026. Funding is requested annually throughout this time period.

Independent Security Assessment Consultant Service – \$300,000

The EDR platform allows FTB to modernize the information technology systems and processes across the enterprise. This effort to FTB's operations is to increase efficiencies and services to taxpayers, maximize transparency, and ensure compliance. EDR laid the foundation for Tax System Modernization by delivering the infrastructure and software architecture for a consolidated platform with common business functions and services. EDR was the largest technology project ever implemented by FTB. EDR included ten major releases over a five year period. The state-of-the-art technologies and reengineered business processes impacted over 4,000 staff with the potential to impact every taxpayer. EDR focused on capturing more data, using this data for enhanced return and fraud analysis, sharing the enhanced data across multiple business areas, and connecting standalone IT systems.

Phase 2 of the project (EDR2) builds upon the platform implemented by EDR to deliver enterprise case management and modeling, decommission outdated legacy systems, and increase services to taxpayers.

Both EDR and EDR2 platforms are very large, complex systems that contain Federal Tax Information and personally identifiable information on every California taxpayer. Due to the type of confidential data FTB collects and stores, this makes FTB a target for adversaries including criminals, inside attackers, and hacktivists. FTB must stay one step ahead of these adversaries and protect the data.

A project with the size and scope of EDR2 will need outside security assessments to ensure that the vendor is not introducing new risks via security vulnerabilities to the state. These independent assessments bring in not only SMEs to perform penetration testing but also an outside look at the system as a whole. The objectives of the proposed independent security assessment are twofold:

1. To establish a baseline for evaluating and performing vulnerability and penetration testing against EDR systems, which include Internal Taxpayer Folder, CM, and MyFTB online application. In addition, a security assessment will be conducted annually 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 contractor will call for 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.

CDT's Independent Project Oversight Consultant Service – \$216,000

The CDT's Independent Project Oversight Consultant (IPOC) service is responsible for developing an Independent Project Oversight Report (IPOR) for projects classified as medium or high criticality. The IPOC analyst ensures the project and department is following their internal processes, procedures, and project plans. The IPOC analyst also works with the IV&V and Project Oversight and Guidance (POG) units to ensure the department is following policies stated in the 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 begin July 2021 and conclude when the EDR2 solution is implemented in December 2026 and funding is requested annually throughout this time period.

IT Training – \$200,000

In anticipation and for planning purposes, FTB requests an annual appropriation of a \$200,000 training budget to support the demanding and emerging technologies that come with a project of this magnitude. During the course of the EDR2 project, staff workloads will be migrating from their current legacy platform to the enterprise platform which most likely will require additional training, so that staff can gain the necessary knowledge and skills to successfully complete their new enterprise platform workloads. This budget is to support those on-demand needs that are outside the scope of knowledge management that the contractor supplies. In addition, this budget is required to prepare state staff to assume maintenance and operations support responsibilities once the EDR2 solution is fully implemented.

Organizational Change Management – \$9,000 In-State Travel and \$5,000 Out-of-State Travel

FTB requests an annual appropriation of \$14,000 for Organizational Change Management (OCM) to travel to field offices for the EDR2 project. The replacement of the Audit Division and ARMD legacy case management systems and modeling systems will significantly impact technology, workflows, business processes, procedures, and work culture at an enterprise level. Workflows and techniques practiced for many years will have to be reorganized, amended or relearned. The purpose of traveling to FTB field offices is to conduct in person OCM meetings with FTB field staff to increase EDR2 project implementation readiness, reduce resistance, accelerate adoption, increase efficiencies for post implementation and create a positive experience for FTB employees. This amount assumes that travel and social distancing restrictions will no longer be required.

Audit Travel for Training for Trainers – \$12,000

FTB requests an annual appropriation of \$12,000 for Audit Division to send a few select trainers from the thirteen offices to attend a T4T session in one location. The EDR2 project is replacing Audit's current case management, modeling and reporting systems. This will require training 1,000+ Audit staff, located in California, Texas, Illinois, and New York, and located across thirteen different offices. This allows the trainers to

become EDR2 SMEs who will return to their offices to train the business areas. T4T is provided directly to division specific trainers by the EDR2 vendor. FTB anticipates T4T training to be one to two weeks with classes running six to eight hours per day. This amount assumes that travel and social distancing restrictions will no longer be required.

ARMD Travel for District Office Training – \$9,000

FTB requests an annual appropriation of \$9,000 for ARMD Trainers to deliver in-person training to field office staff. ARMD's career center plans to facilitate the development and presentation of EDR2's training to 1,225 staff including 171 field collection and public counter staff in five public field offices throughout California in the tax programs on the new systems and functionality. This amount assumes that travel and social distancing restrictions will no longer be required.

E. Outcomes and Accountability

The CDT's approved S1BA, S2AA, S3SD, and S4PRA supports this Budget Change Proposal (BCP) request and provides the details about the project scope, solution requirements, procurement and staffing strategy, solution development, evaluation methodology, and cost/payment model.

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.

The fiscal oversight of the project is the responsibility of both the Chief Information Officer (CIO) and the Chief Financial Officer (CFO).

- FTB has taken various steps and requested funding to ensure a successful EDR2 implementation.
- A CDT IPOC will continue to 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 continue to 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 continue to ensure that the EDR2 project contractor is not introducing new risks via security vulnerabilities to the state.
- FTB's ability to maintain the data integrity of Federal Tax Information, State Tax Information, or Personally Identifiable Information in its critical information systems is ensured to reduce the risk of losing public trust.
- New audit models, strategies, and products are realized. Audit Division has the ability to successfully select best value cases and complete quality cases efficiently, increase automation and process efficiencies, and ultimately reduce audit timeframes.
- PASS case unit data analysis and cleanup tasks are completed to ensure the data is ready for the modeling and conversion processes. Business rules are put in place

for automating the data conversion from the legacy system data to the Enterprise Data Store for use by the new case management system in the EDR2 project.

- Cases in the ARMD collection legacy system are analyzed and resolved by the PIT Data Conversion staff prior to the contractor's automated conversion to the new case management system. Data integrity in the legacy collection system has been ensured and account issues have been resolved for the maximized effectiveness of the automated data conversion to the new case management system.
- New data fields from paper returns and stand-alone tax forms are timely captured and utilized for processing, modeling, noticing, validating, and verifying to create additional notices and increase revenue.
- Additional workload in PSS related to Workers' Compensation claims and Medical Leave of Absence from the increase of enterprise staff will be performed without creating a backlog and meet five-business day response deadlines required by law. The performance management activity is supported proactively and reduces the risk to the department due to potential policy violations.
- Additional time sensitive workload in BSS and Health and Safety Unit related to the increase of enterprise staff will be addressed.
- Training and OCM activities will be created and developed to support FTB enterprise and field offices who will utilize the systems impacted by the EDR2 project.
- Creation of new ftb.ca.gov webpages from EDR2 project 22 new initiatives are successfully completed and provide information, next actions, and instruction on how to use self-services to taxpayers, practitioners, and business partners.
- New software and hardware will be acquired for increased activities planned for the EDR2 project.

F. Analysis of All Feasible Alternatives

Alternative 1: Approve augmentation of \$150.9 million and 20.0 permanent positions, 23.5 full time equivalent limited-term positions, and 21.0 permanent-intermittent positions to begin second-year implementation of the EDR2 project in FY 2022-23.

This alternative represents a fully-loaded request for resources needed to successfully begin the second year of the EDR2 project. The EDR2 project supports replacement of two legacy systems that are near end-of-life (ARCS and PASS) to 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, limited-term, and permanent-intermittent enterprise business/program positions to support the increased workload generated by the EDR2 project on Training, Audit, ARM, Filing, Business and Human Resources Bureau, and Communication Services Bureau.
- Acquire additional permanent and limited-term IT positions to support the enterprise security for the duration of the EDR2 project.

- Acquire overtime funding for staff to validate PIT tax returns and payments from new data capture fields implemented by the EDR2 project.
- Acquire IV&V, QA, and CDT IPOC contract services.
- Acquire independent security assessment consultant service.
- Secure the contractor's compensation and \$7 million for the contingency compensation payments.
- Fund new laptops and software to provide equipment for contractor staff.
- Fund IT training to support the demanding and emerging technologies with the EDR2 project.
- Fund ARM, Audit, and Organizational Change Management travel for training activities.

Alternative 2: Approve augmentation of \$150 million and 14.0 permanent positions, 23.5 full time equivalent limited-term positions, and 21.0 permanent-intermittent positions to begin second-year implementation of the EDR2 project in FY 2022-23.

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

- Various policy, law and guideline violations.
- Enterprise training on new EDR2 functionality will not be delivered as needed to ensure the solution is implemented successfully and FTB yields the anticipated efficiencies and revenue as timely as expected.
- Lack of support of the initial and ongoing application security assessments necessary to securely release the services the EDR2 solution will provide.
- Invalid privacy controls, leading to increased misuse and fraud cases.
- Increased security incident response costs.
- Increased unauthorized access and disclosure of confidential information.

Alternative 3: Approve augmentation of \$146.9 million and 20.0 permanent positions, 23.5 limited-term positions, and 21.0 permanent-intermittent positions to begin second-year implementation of the EDR2 project in FY 2022-23.

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 will result in significant risks to the EDR2 project's scope and schedule. 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.

If these additional resources are not approved, delays will occur in 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. Increased and unnecessary risks to the contractor would also occur resulting in the cessation of project activities or increased litigation risks to the state for failure to timely pay for services performed. Failure to ensure this project moves forward timely will eliminate FTB's ability to replace aging systems before end-of-life which could jeopardize the generation of revenue of approximately \$4 billion annually. FTB will not be able to meet contractual obligations associated with the EDR2 project.

G. Implementation Plan

- June 2022 – All documents to establish positions are prepared and approved by the Budget Officer and forwarded to the Department of Finance.
- July 2022 – Department of Finance notifies FTB of position approvals.
- July 2022 – Permanent, limited-term and permanent-intermittent positions are established and FTB begins hiring.

H. Supplemental Information

CBO to provide.

I. Recommendation

Alternative 1: Approve augmentation of \$150.9 million and 20.0 permanent positions, 23.5 full time equivalent limited-term positions, and 21.0 permanent-intermittent positions to begin second-year implementation of the EDR2 project in FY 2022-23.

This alternative provides the most efficient and effective solution to meet the project and contractual needs when the EDR2 project begins second-year implementation on July 1, 2022. This alternative is the most desirable alternative to minimize costs and risks and maximize the benefits of the EDR2 project.

BCP Fiscal Detail Sheet

BCP Title:

BR Name:

Budget Request Summary

Personal Services

Pending Board Approval