

**State of California**  
**Franchise Tax Board**

***Withhold At Source System Project***

**Feasibility Study Report**  
**FTB FSR 06-02**

**August 2007**  
**(8/3/07 Rev.)**

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## **1.0 Executive Project Approval Transmittal**

See attached.

## **2.0 Project Summary Package**

See attached.

## **3.0 Business Case**

### **3.1 Business Program Background**

The purpose of the Franchise Tax Board (FTB) is to collect the proper amount of tax revenue, and operate other programs entrusted to us, at the least cost; serve the public by continually improving the quality of our products and services; and perform in a manner warranting the highest degree of public confidence in our integrity, efficiency and fairness. In addition to the responsibility for administering two of California's major tax programs: Personal Income Tax (PIT) and the Corporation Tax, FTB administers the Homeowner's and Renter's Assistance Program and other non-tax debt programs.

FTB also has responsibility for administering non-wage withholding programs, which include real estate withholding and nonresident withholding for partners, independent contractors, and entertainers. Currently, these withholding programs generate \$2 billion in revenue on an annual basis.

Withhold at source activities began in the early 1950's and primarily were directed toward the Hollywood entertainment industry in Southern California. During the mid 1980's and 1990's the program was expanded to include withholding activities for:

- Independent Contractors (i.e. sports, performers, fairs),
- Foreign sellers of California property,
- Withholding on allocation of California sourced income to foreign partners,
- Withholding on distributions of California sourced income to domestic partners, and
- Domestic nonresident sellers of California property.

The Withholding Services and Compliance Section (WSCS) administers the department's withholding program. WSCS receives and processes non-wage withholding forms and payments. In addition, WSCS has public service staff that handles approximately 45,000 phone calls and 4,200 pieces of correspondence annually from taxpayers inquiring about withholding.<sup>1</sup> In recent years the focus of the department's withholding program has been on real estate withholding for California residents and a proposal to implement voluntary withholding on resident independent contractors.

#### *Real Estate Withholding*

In September 2002, legislation was enacted expanding the department's authorization to require withholding on resident individuals who sell California real estate.<sup>2</sup> Within two years of expanding the withholding program in 2003 to include

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<sup>1</sup> Based on 2006 calendar year statistics

<sup>2</sup> AB 2065 (Oropeza, Stats. 2002, Ch. 488)

resident real estate withholding, the annual gross amount of real estate withholding collected grew from approximately \$100 million to \$1.7 billion, and the number of individuals with real estate transactions subject to withholding increased from approximately 15,000 to 225,000. This revenue is considered “gross withholding revenue” collected at the time a real estate transaction is concluded. A portion of this revenue may be refunded to taxpayers who file tax returns claiming the withholding as a credit.

In 2006, WSCS staff conducted a study regarding the gross withholding on real estate transactions to determine the percentage of withholding that may be refunded to taxpayers. The study revealed that for tax year 2003, 58% or nearly \$1 billion of real estate withholding collected by FTB was retained by the State.

### *Resident Independent Contractor Withholding*

In January 2005, at the request of the Legislature, FTB staff completed a report regarding withholding for resident independent contractors. In summary, the report found that withholding for this group of taxpayers would increase compliance, but would be costly and complex for the government and private sector, and may be perceived as detrimental to the business climate in California. However, a public policy debate requiring independent contractor withholding continues, and the federal government is examining this issue. If the federal government implements an independent contractor withholding program in the future, there is a likelihood that California would implement a similar program. FTB must have a withholding system that has the flexibility and capacity to add such a program.

### System History

In 1996, a Feasibility Study Report (Withhold-At-Source Rewrite, FSR 96-14) was approved to develop a new non-resident withholding system. The original withholding system (non-residents only) had been developed as a single database by program staff in the mid-1980's to track the \$5 million a year entertainment withholding revenue. By 1996, the non-resident withholding program grew from \$5 million to over \$200 million annually. The project objectives were to provide automated security features, automate manual processes, reduce the number of tax returns requiring manual verification of withholding credits, and design a system that is capable of interfacing with other departmental systems. The Nonresident Withholding System (NRWS) was implemented in 1999. The project objectives were met as indicated in the Post Implementation Evaluation Report (PIER), which was completed on March 15, 2001.

Although the NRWS project objectives were met, the system did not have the functionality to support the processing needed for the real estate withholding program expansion in 2002. As mentioned above, real estate withholding revenue grew from \$100 million to \$1.7 billion annually, and transactions increased from 15,000 to 225,000 each year. These changes proved to be more complex than originally anticipated and were not implemented until 2006.

The project objectives in this FSR may appear to be the same as the ones identified in FSR 96-14. While the basic theme of the objectives is similar, the specific issues are much different. For example, both FSRs include objectives to:

- Improve security, privacy, and confidentiality.
  - The first FSR addressed various basic security features such as password-protected access and the ability to assign user authorization levels.
  - The current FSR addresses system vulnerability due to design deficiencies.
- Automate manual processes.
  - The first FSR addressed issues such as balancing, allocating, and reconciling withholding payments.
  - This FSR discusses automating manual workloads, such as the assessment of penalties and interest and issuing notices as well as streamlining the receipt, data capture, and payment processing for withholding forms.
- Involve system interfaces.
  - The first FSR addressed designing a system that is *capable* of interfacing with other departmental systems. NRWS does have that capability but currently interfaces with only one system.
  - In this FSR, we propose to develop interfaces with multiple systems.

NRWS was implemented in December 1999. Program growth and new technologies dictate that further improvements are necessary. In order to ensure the continued operation of the withholding program, which now collects over \$2 billion annually, and to ensure system functionality to handle new withholding programs, this FSR describes a new project to replace all 'withhold at source' systems with a single system. This FSR is consistent with several of FTB's Strategic Goals for 2007-2011.

- *Goal #1: Improve Customer Service.* To promote FTB's strategic vision to provide customer service options emphasizing self-service and e-service, FTB must give the withholding agents and taxpayers expanded access to information and services. The withholding agent community has expressed an interest in electronic submission of withholding forms and payments.
- *Goal #2: Increase Fairness and Compliance with Tax Law.* To provide fair and impartial treatment for every taxpayer and identify and implement approaches to resolve tax gap issues, FTB must consistently and fairly apply the withholding laws to all withholding agents and those taxpayers that are nonfilers.
- *Goal #5: Demonstrate Operational Excellence.* To deliver efficient, high quality business results by streamlining processes and modernizing our IT system for reliability, ease of use, cost effectiveness, speed, and ability to react to change. WSCS will improve efficiency by reengineering internal processes and moving to an electronic environment.
- *Goal #6: Protect Taxpayer Information and Privacy.* To ensure taxpayers have confidence that all data sent to FTB is carefully protected, FTB must use industry best practices to secure the data submitted by withholding agents and taxpayers.

### 3.2 Business Problem or Opportunity

This project will address the following problems and opportunities for the current Nonresident Withholding System (NRWS):

**1. Continued revenue loss and increased non-compliance because withholding data is not exchanged with the Integrated Nonfiler Compliance (INC) System.**

There are a significant number of outstanding withholding credits on NRWS. An estimated 70% of these credits are the result of nonfilers. Currently, INC does not receive all income data for nonresident taxpayers; therefore, filing enforcement assessments may not be created for this group of taxpayers. If the current withholding data were uploaded to the INC system, FTB will collect an estimated \$6.6 million in additional revenue over a five-year period, as shown in the table below and Appendix 3. FTB should collect an additional \$1 million annually in subsequent years starting in Fiscal Year 2015/16.

*Table 1<sup>3</sup>*

<b>Fiscal Year</b>	<b>Estimated Revenue</b>
2010/11	\$1,300,000
2011/12	\$1,800,000
2012/13	\$1,200,000
2013/14	\$1,100,000
2014/15	\$1,200,000
<b>Total</b>	<b>\$6,600,000</b>

**2. Withholding credits are misapplied to taxpayer accounts due to insufficient interfaces with FTB's accounting systems.** Currently, NRWS functions as an independent accounting system and has a limited interface for personal income taxpayers through the Taxpayer Information (TI) System and no interface with business entity taxpayers (BE) through the Business Entities Taxpayer System (BETS). This limits the functionality to exchange information regarding withholding payments.

Failure to have a full interface with the department accounting systems results in continuing manual workloads to accurately apply withholding credits, which can delay the processing and allocation of withholding payments. This can result in the taxpayer receiving erroneous refunds or payment due notices from the department. Payments may also be erroneously allocated to taxpayers. It is estimated that approximately 375 erroneous refunds totaling \$3.7 million are sent to taxpayers annually and 20,000 Return Information Notices (RIN) are issued to taxpayers for account adjustments.

Since the real estate withholding laws were expanded in 2003, the number of outstanding withholding credits has grown significantly. Approximately 50,000 credits totaling \$115 million remain on the system each tax year. Some credits

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<sup>3</sup> Revenue derived using proven Filing Enforcement (FE) estimating technique assuming four tax years of assessments for 2010/11 and a 40% increase in revenue for 2011/12 due to increased collections for multiple years. Estimates reflect a decrease of 50% for the nonresident population.

should reside in NRWS because the taxpayers have not filed their returns. However, many of these credits remain in NRWS due to the limited interface with TI and lack of an interface with BETS. In some instances, the taxpayers have received their credit but NRWS has not been updated to accurately reflect the credit status.

In an effort to mitigate erroneous refunds and outstanding credits, FTB is currently undertaking various manual and automated solutions. These solutions include enhancing the interface with TI, increasing staff resources to manually analyze and adjust taxpayer accounts, and pursuing collection activities to recover erroneous refunds. However, even with the implementation of these solutions, it is anticipated that erroneous refunds and outstanding credits will continue to be an issue until the existing system is replaced.

- 3. Withholding agents do not have the ability to submit non-wage withholding forms and payments electronically.** PIT return filing methods have changed dramatically and taxpayers can now e-file their returns online using a vendor or e-file directly to FTB using CalFile. In 2006, the department began offering e-file to business entity taxpayers. Expanding e-file to allow our withholding agent customers to submit forms and payments electronically would confirm FTB's customer centric focus by responding to industry desire for e-file. In addition, secure e-file for withholding would result in efficiencies in receipt, data capture, and payment processing. In 2006, WSCS staff surveyed real estate and nonresident withholding agents and found that, of those that responded, 65% expressed an interest in an FTB web-based e-file solution and 27% expressed an interest in a commercial software based e-file solution.
- 4. The current system is vulnerable to unauthorized and undetectable access and manipulation.** FTB's Internal Audit staff conducted an audit of NRWS and determined the following issues exist:
  - The current system is vulnerable to unauthorized and undetectable access and manipulation. Due to a design flaw in the NRWS application, users could gain unauthorized access to the NRWS database and make changes to the data. The changes would not leave an audit trail.
  - Due to limitations with the current system, WSCS maintains several separate Access databases that augment the use of NRWS. These databases contain confidential taxpayer information. Due to the storage location of these databases, they are vulnerable to unauthorized access.

The inability to update and maintain sufficient security controls leaves taxpayer information vulnerable to undetected and unauthorized access. Users who are proficient in Microsoft software/database have the ability to access these databases via a "backdoor" method even when the database is stored in a secured database server. Data can be modified or deleted with no audit trail identifying who performed the transaction. Since the databases house sensitive Taxpayer Information, particularly the information of high profile athletes and entertainers, the application architecture and authorization method should be re-evaluated and enhanced.

The WASS system is Internet accessible and the proposed Intrusion Detection System (IDS) Expansion would have covered the WASS servers. FTB made a decision to postpone the IDS due to lack of resources and the inability to complete FSR and BCP within required timeframes. IDS would provide Host intrusion prevention capabilities to mitigate 'unauthorized access' vulnerabilities at the application layer. However, this would not address the Microsoft Visual Basic design deficiencies. Security controls at the 'application layer' are unique to each software application and dependent on version control.

- 5. The current system is unable to assess penalties, interest, and generate notices to customers.** Specifically, the system is unable to perform automated calculations to assess penalties and interest for delinquent withholding forms and payments, which contributes to continued non-compliance by some withholding agents. Based on delinquent real estate withholding forms (information returns) received in 2006, automating penalties could result in the collection of approximately \$250,000 in new penalty revenue on an annual basis starting in Fiscal Year 2010/11.<sup>4</sup>

NRWS also lacks the functionality necessary to issue notices, including account adjustment notices and payment due notices. The system lacks the ability to track these account functions and follow-up for future actions. Failure to automate results in delayed assessment of the appropriate penalties and interest. WSCS staff must manually calculate the penalties and interest, post the amounts to NRWS or BETS, and manually create a notice to mail to the customer. This manual processing can result in calculation errors or excess interest may accrue due to the delay.

WSCS has grown significantly since the 2003 expansion of the real estate withholding program to residents. However, staff resources have been focused on the mission critical workloads of data entry and customer service. As a result, WSCS is not staffed at a level necessary to dedicate the time needed to complete the manual workloads related to penalty assessments. Continued failure to issue these assessments results in withholding agents seeing non-compliance as acceptable while the state continues to experience a loss of potential revenue.

- 6. The current system provides limited standard management reports.** WSCS relies on ad-hoc queries for information using database utility tools. Staff is unable to generate the types of automated reports that are necessary to manage staff workloads. In addition, NRWS lacks the ability to provide various accounting reconciliation reports. Because of the complexity to build standard reports into the existing system, it is not possible to enhance the system to add all the standard reports necessary without degrading the integrity of the application. The approach of attempting to add the standard reports also would not be cost effective to the department.

The inability to produce reliable statistical reports for management results in the inability to complete revenue analysis studies, accrual accounting, cash flow, and revenue estimating reports. The lack of automated workload reports and lists fails to

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<sup>4</sup> As shown in Appendix 3 and Economic Analysis Worksheet (EAW)

ensure WSCS is working as efficiently as possible. The lack of account reconciliation and fiscal reporting prevents WSCS from maintaining accurate accounting records of withholding payments received and allocated.

- 7. Microsoft discontinued basic support of the Visual Basic Version [REDACTED] programming language in 2005 and will discontinue the extended support in 2008.** Once Microsoft discontinues support of Visual Basic Version [REDACTED], the department will be unable to adequately maintain and enhance NRWS as needed, which will likely result in additional manual processes within WSCS. Since NRWS is responsible for the receipt and processing of over \$2 billion in withholding amounts annually, failure to replace the outdated system with technology that is adequately supported leaves the department vulnerable to processing issues. If NRWS were to fail at any given time, and because no other system in the department's existing architecture can account for these payments, the department would be unable to efficiently process nonresident or real estate withholding payments in a timely manner. Taxpayers would experience a significant delay in receiving the appropriate withholding credits on their individual or business entity tax account, which could result in erroneous billing notices issued to these taxpayers.

### 3.3 Business Objectives

The Withhold At Source System (WASS) Project will address the business problems and opportunities identified in the previous section of this report by:

- 1. Generate new revenue for nonfilers of \$1.3 million in the first year following implementation.** By sharing 70% of the outstanding credit data that is estimated to represent nonfilers with INC, it is estimated that a total of \$6.6 million in new revenue will be collected during the five-year period after the system is implemented. An additional \$1 million in revenue would be collected for subsequent years (see Appendix 3). The PIT INC baseline is \$451 million. The new withholding income source will be assigned its own unique revenue model within the INC system. With this revenue model, we will be able to separately track revenue from these cases. (Problem Statement 1)
- 2. Reducing the remaining 30% of outstanding withholding credits by 20%.** This will be achieved by creating an interface with existing department systems, including TI and BETS, while remaining flexible to pursue opportunities to interface with additional systems. This helps ensure the appropriate taxpayer receives the correct amount of withholding credit and will reduce the number of erroneous refunds. (Problem Statement 2)
- 3. Receiving 5% of nonresident withholding forms and payments and 10% of real estate withholding forms and payments electronically.** This confirms FTB's customer centric focus and meets withholding agents' request to securely submit forms and payments electronically by implementing a withholding agent e-file and e-pay option. (Problem Statement 3)
- 4. Prohibit unauthorized access of FTB customers' information by August 1, 2010.** Adopt current technology that will prohibit unauthorized access and is supported by the department while meeting the security guidelines in the department Information Security Policy File 9500. (Problem Statements 4 & 7)
- 5. Replacing the existing non-resident and real estate withholding system by August 1, 2010, because Microsoft will discontinue support of Visual Basic Version ■■■** This project would mitigate the risk of a system failure that could effectively cease the processing and allocation of over \$2 billion in withholding payments due to taxpayers. (Problem Statement 7)
- 6. Save 11.25 PY's annually by automating manual processes and workloads within WSCS.** This includes improving operational efficiencies by automating the assessment of penalties and interest; issuing notices; and producing workload, fiscal, and management reports(see Appendix 3). This would also include streamlining the receipt, data capture, and payment processing for withholding forms. (Problem Statements 2, 5 & 6)

### **3.4 Business Functional Requirements**

The system adopted as a result of this FSR must meet all of the following requirements:

#### **Core System Functionality**

1. Capture and process data and payments for the nonresident and real estate withholding program and the non admitted insurance tax (NIT) program. (Business Objective 6)
2. Issue automated and user-generated notices regarding processing validation similar to Return Information Notices (RIN). (Business Objective 6)
3. Validate and allocate withholding remittance amounts to the appropriate taxpayer withholding account. (Business Objective 2)
4. Identify delinquent forms and payments where penalties and interest are required and automatically assess penalties and accrue interest. (Business Objective 6)
5. Generate automated billing notices. (Business Objective 6)
6. Hold withholding credits on the appropriate legacy accounting system or new system until a tax return is filed claiming the credit. (Business Objective 2)
7. Automate the processing of reduced withholding requests and waivers. (Business Objective 6)
8. Automate the processing of Bulk Sales Certificates. (Business Objective 6)

#### **Processing Systems and Interfaces**

9. Interface with current FTB information technology, including imaging and scanning, to capture data from paper forms and payments. (Business Objective 6)
10. Accept electronically filed (e-file) withholding forms from withholding agents. (Business Objective 3)
11. Interface with TI and BETS to exchange validated real estate and non-resident withholding payments. It is anticipated that a nightly batch process would be used to update to the appropriate taxpayer accounts. The information exchanged would include, but not be limited to, taxpayer identification and the withholding amount. Penalty and interest calculations should be transmitted to TI and BETS and post to the withholding agent's tax account as penalty and interest assessments. (Business Objective 2)

12. Interface with INC to transmit withholding credit data to be used as an income source to identify nonfilers. The information shared would include, but not be limited to, taxpayer identification and the income and withholding amounts. INC will use this data to create filing enforcement assessments and issue notices to nonfilers. (Business Objective 1)
13. Interface with the Integrated Voice Response system and utilize the anticipated FTB use of Computer Telephony Integration. (Business Objective 6)
14. Interface with the Disaster Zip Application in order to suppress notices being sent to zip codes that have been declared disaster areas for a specified length of time. (Business Objective 6)
15. Exchange withholding data electronically with withholding agents using secure Internet file transfer protocol. (Business Objective 3)

### **Customer/User**

16. Capability to assign view only access and/or transaction level access. (Business Objective 4)
17. Provide for review, edit, and authorization of on-line transactions. (Business Objective 4)
18. Allow for consolidation of withholding agent and taxpayer accounts when duplicate accounts are identified and confirmed. (Business Objective 6)
19. Provide an automated and manual ability to write off a credit or debit balance amounts for less than or equal to an established write-off criteria. (Business Objective 6)
20. Allow manual adjustment of penalties and interest and keep a historical record of adjustments. (Business Objective 6)
21. Allow withholding agents and taxpayers access to their withholding information via the FTB website. (Business Objective 3)
22. Provide standard reports with information necessary for staff to complete revenue analysis studies, accrual accounting, cash flow, exception reporting, and revenue estimating reports. In addition, provide on-line management, workload, and fiscal reconciliation reports and work lists for staff. (Business Objective 6)

### **General System**

23. Ensure the confidentiality, privacy, and security of the data and comply with audit requirements in accordance with the department's Information Security Policy File 9500. (Business Objective 4)
24. Comply with department data retention and archive policies. (Business Objective 4)

25. Convert approximately 278,000 existing withholding agent and taxpayer accounts from NRWS for the appropriate amount of tax years as required under FTB's data retention and archive policies. The data converted would include, but not be limited to, taxpayer information and outstanding withholding credits. In addition, eliminate the use of existing Access databases, and handle possible expansion for future withholding programs. (Business Objective 5)
26. Meet the department's current disaster recovery guidelines. (Business Objective 5)
27. Support any maintenance requirements and future enhancements identified by staff. (Business Objective 5)
28. Support user needs through the appropriate department helpdesk and/or become linked to ResetMe. (Business Objective 6)
29. Comply with Generally Accepted Accounting Principles (GAAP) in accounting for system financial information including posting of transactions, adjustments, and write-offs. (Business Objective 6)

## **4.0 Baseline Analysis**

### **4.1 Current Method**

WSCS receives and processes forms and payments regarding non-wage withholding, completes compliance audits, and provides education and outreach to our external stakeholders. In addition, WSCS maintains several smaller workloads related to entertainer and nonresident waiver requests, bulk sales, and the non-admitted insurance tax (NIT). The following outlines the processing flow for the nonresident and real estate withholding workloads, which are the primary workloads of the section.

- **Form 592 Series: Nonresident Withholding**

A withholding agent must submit a Form 592-A by the 20<sup>th</sup> of the month to report and remit any withholding exceeding \$2,500 on income payments to a nonresident made the prior month. This includes payments made to an independent contractor, a distribution of partnership income, an estate or trust distribution, or payment of rents or royalties to nonresidents. A withholding agent can be an individual or a business entity.

When the department receives these forms, they are batched by the Receiving Section and assigned a unique five-digit batch number. Each form is assigned a unique seven-digit Document Locator Number (DLN). The Information Capture and Banking Section (ICBS) manually cashes the payments that accompany the 592-A. Staff in WSCS posts the payment to the withholding agent account on NRWS. The batched forms are forwarded to WSCS for staff to manually enter and perfect the data from the forms into NRWS. The payments reside in NRWS until the withholding agent files the annual return and the taxpayer files a tax return claiming the credit.

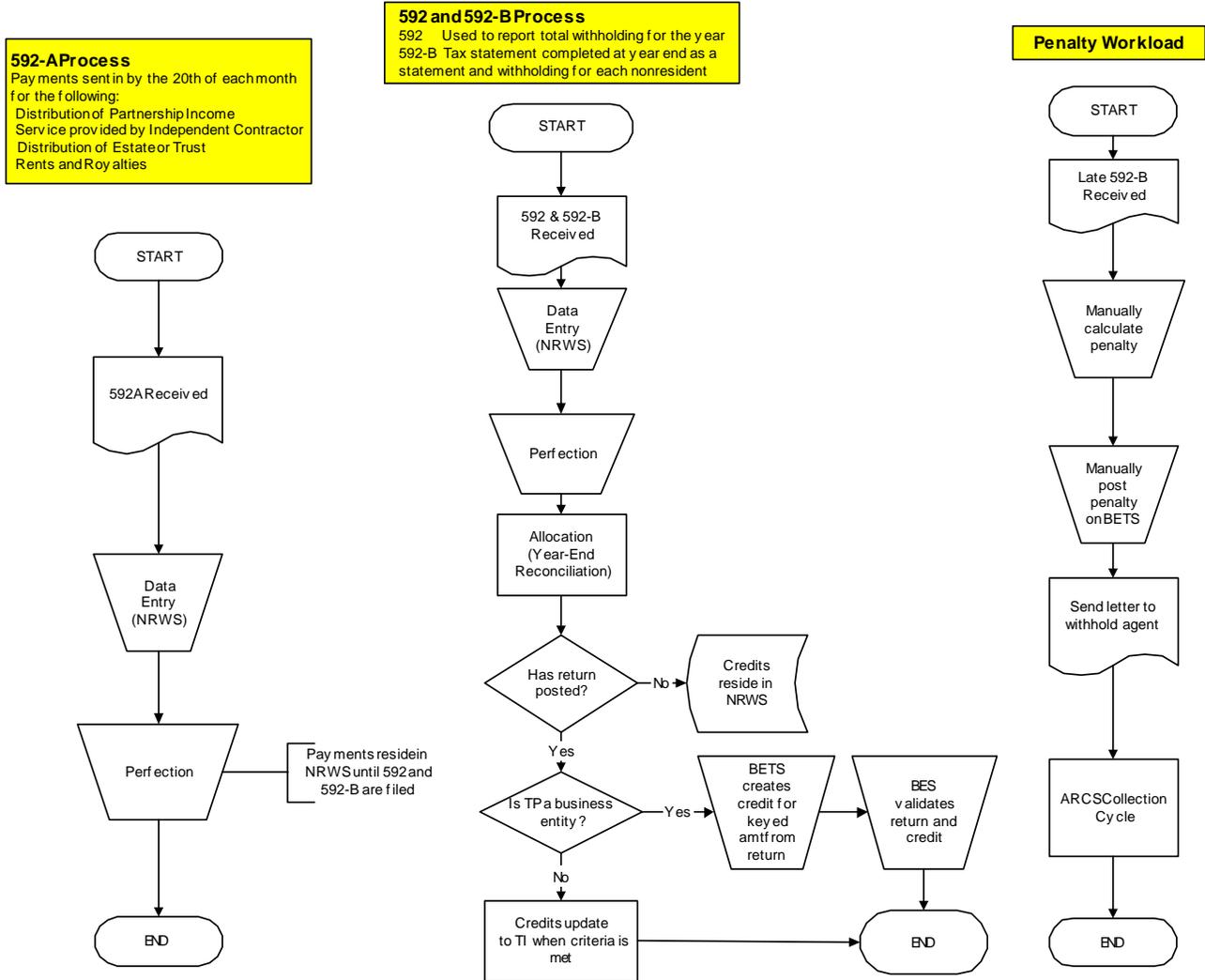
By January 31 of the following year, the withholding agent completes the 592, which summarizes any payments submitted with Form 592-A's for the previous calendar year. Attached to the Form 592 will be the appropriate 592-B's that identify the taxpayer or multiple taxpayers and amounts for which the withholding should be allocated. Similar to the paper processing for the 592-A's, the forms are forwarded to WSCS for manual processing. NRWS reconciles the annual Form 592 and 592-B's with the withholding amounts previously submitted, and the withholding is allocated to the appropriate taxpayer within NRWS.

Once a taxpayer files a tax return claiming the withholding credit for the appropriate tax year, the credit is moved from NRWS to the taxpayer account on either BETS or TI. NRWS has a limited interface with TI and the movement of the credit is part of an automated process. However, a user must manually move credits from NRWS to BETS.

In the event the 592-B's are delinquent, the withholding agent is subject to a penalty. WSCS staff calculates the penalty, posts the amount to BETS, and mails a letter to the withholding agent as part of a manual process. If the penalty remains unpaid, the

account will move through the Accounts Receivable Collection System (ARCS) collection cycle.

Below is a diagram of the nonresident withholding process.



- **Form 593 Series: Real Estate Withholding**

A withholding agent, generally an escrow or title company, must submit a Form 593 and 593-B for each real estate transaction subject to withholding that is closed during the month. The agent has the option to submit the withholding amount with one Form 593 and 593-B for each individual transaction or submit the withholding amount and one 593 summarizing the total transactions for the previous month. In this scenario, multiple 593-B's would be submitted, each one identifying the seller of property and the amount of withholding to be allocated to that seller.

When the department receives these forms, they are batched by Receiving and assigned a unique five-digit batch number. Each set of forms (593 and accompanying 593-B's) is assigned a unique seven-digit DLN. ICBS manually cashiers the payments that accompany the forms and staff in WSCS posts the payment to the withholding agent account on NRWS. The batched forms are forwarded to WSCS for staff to manually enter and perfect the data from the forms into NRWS. Once the forms are perfected, the credit amount is allocated based on the information on the 593-B's that identify the taxpayer or multiple taxpayers and amounts for which the withholding should be allocated.

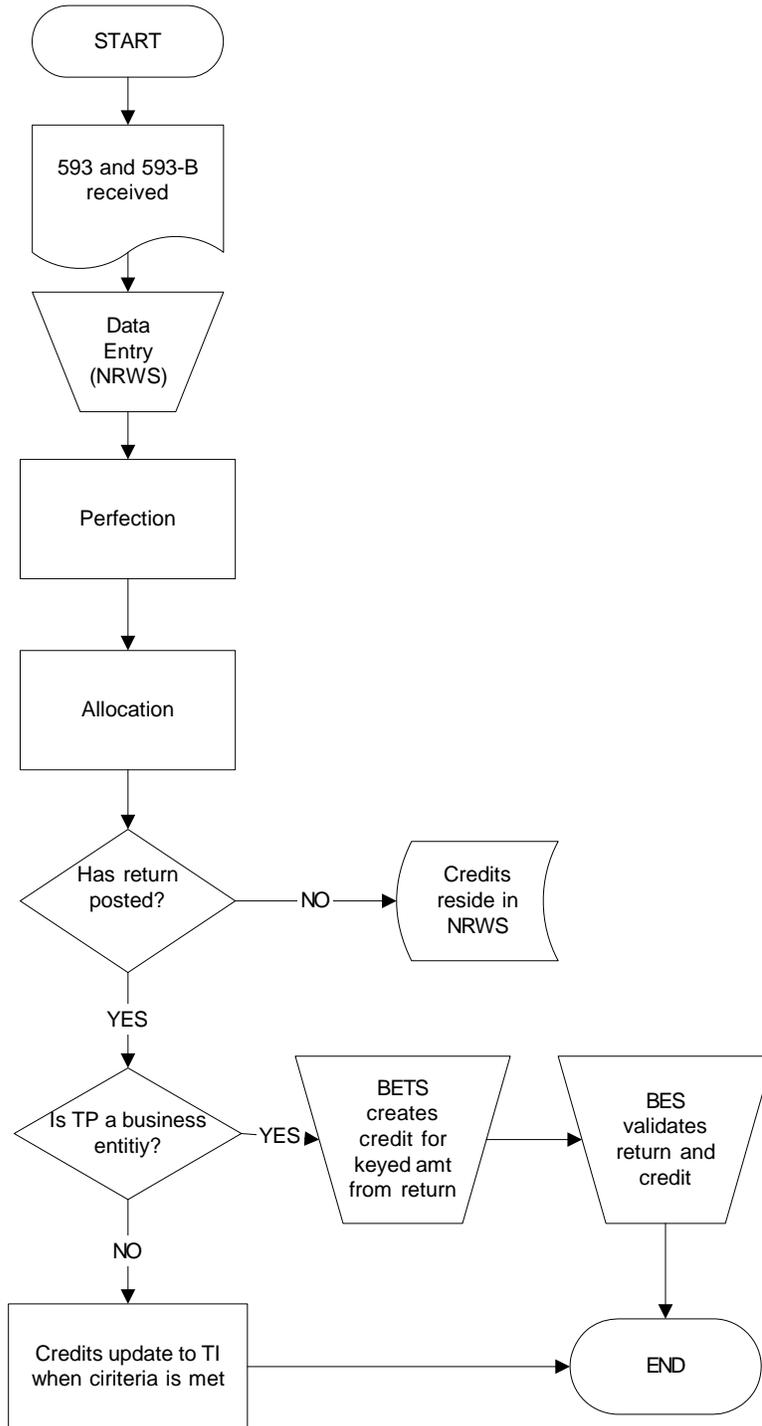
Once a taxpayer files a tax return claiming the withholding credit for the appropriate tax year, the credit is moved from NRWS to the taxpayers account on either BETS or TI. NRWS has a limited interface with TI and the movement of the credit is part of an automated process. However, a user must manually move credits from NRWS to BETS.

Withholding amounts are due to FTB by the 20<sup>th</sup> day of the month following the close of the escrow. If the payment is delinquent, the withholding agent is subject to interest for the time of the delinquency. Staff in WSCS calculate the interest amount, post the amount to NRWS, generate a notice to the withholding agent, and mail the notice. Staff must then monitor the account in NRWS and follow-up with the withholding agent if payment of the interest is not received. Each step in the interest assessment workload is done manually.

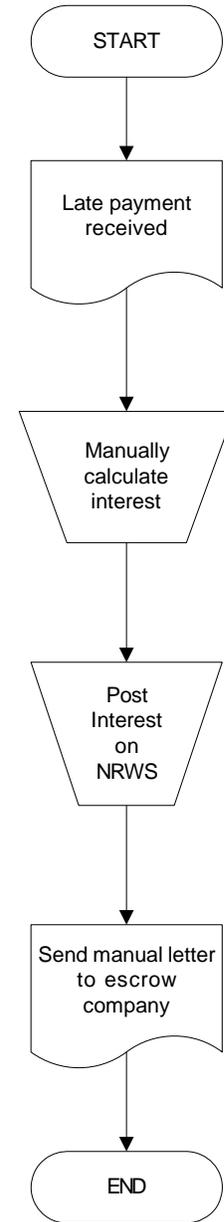
Payment processing is manually intensive since, many times, payments are sent in without the Form 593 summarizing the payment amount. Staff in the pipeline spends time researching the payments and creating documents for data entry input by WSCS staff.

Below is a diagram of the real estate withholding process.

**593 and 593-B Process**  
Sales of CA Real Estate



**Interest Workload**



NRWS accumulates various data that could be used for weekly reports regarding forms processed, transactions performed, and items in inventory and review. Generally, the current systems provide limited standard management reports. In addition, staff is unable to generate reliable statistical reports regarding revenue analysis and estimating.

This rewrite would position FTB for the future by adding more automated processing options, including using existing pipeline methods to process withholding forms. It will allow for more efficient processing and allow for other filing and payment options, including e-file and e-pay.

## **4.2 Technical Environment**

The Nonresident Withholding System (NRWS) is the current application for the processing of non-wage withholding at FTB. NRWS was implemented in 1999 as the product of an FSR completed in 1996. NRWS uses Microsoft Visual Basic ■ as the application software and is maintained on a Windows Server 2003 database server using Microsoft SQL Server 2000 as the database software.

As it was implemented, NRWS lacked many of the efficiencies requested in the original FSR. As a result, NRWS was enhanced in May 2006 by adding another application for the processing of real estate withholding. This enhanced application is referred to as Withhold At Source (WAS) and automates the previously manual process of perfecting forms and allocating real estate withholding payments to taxpayers. WAS uses the same application software, is maintained on the same database server, and uses the same database software as NRWS.

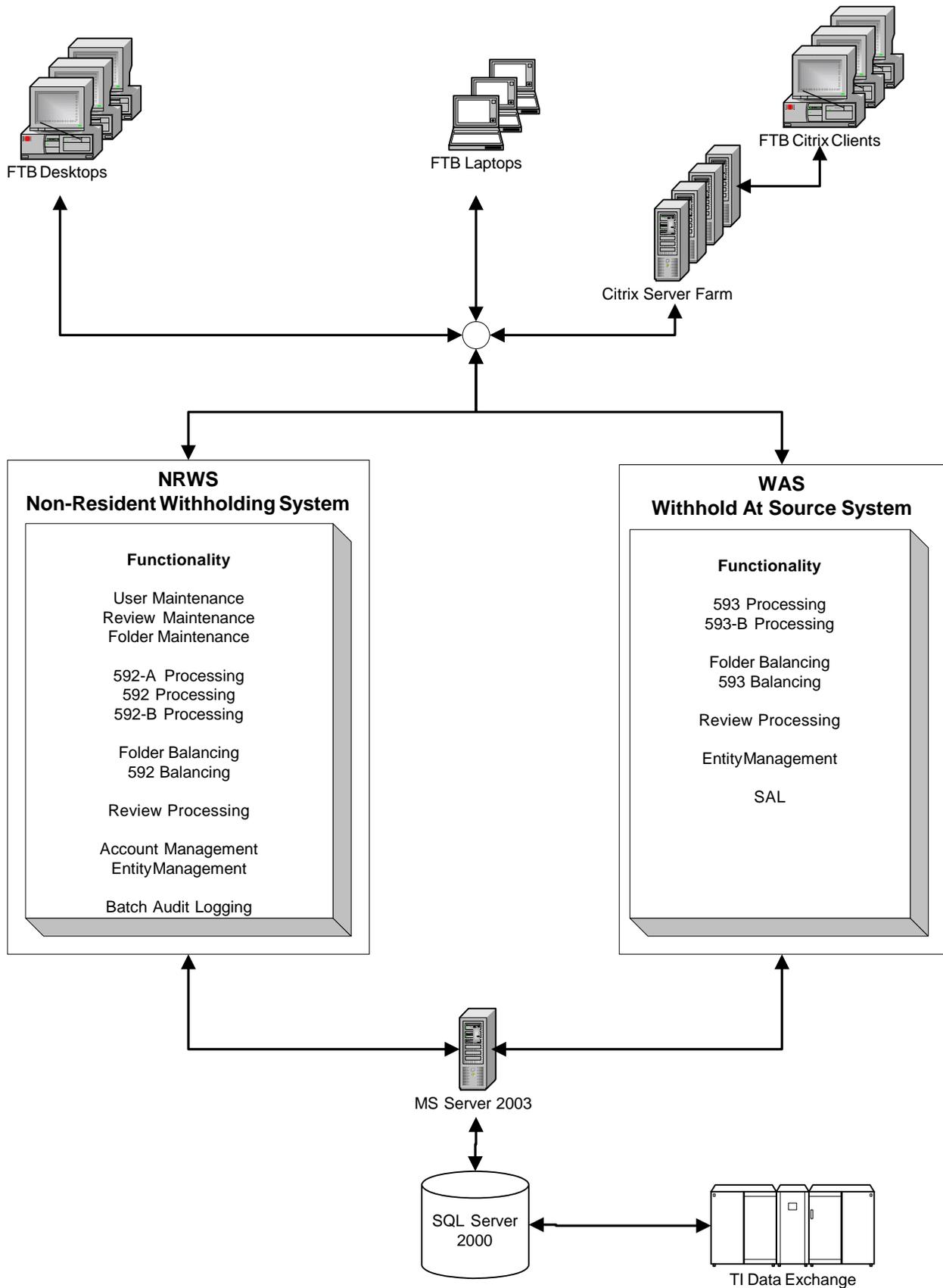
NRWS has a limited interface with the Return Validation (RV) and TI systems to read and process withholding credits. The Information Validation Section (IVS) has access to NRWS on a select number of terminals through Citrix for processing tax returns and verifying the withholding credits. NRWS does not have an interface with BETS. The Business Entities Section (BES) has access to NRWS on a select number of desktop personal computers (PC's) for processing tax returns and verifying the withholding credits.

WSCS staff has access to NRWS through their individual desktop and laptop PC's. Per an agreement with the Taxpayer Advocate Bureau, limited staff within the bureau have access to NRWS for processing classified accounts.

In addition to using NRWS and WAS, staff maintains approximately seven Access databases that are used to store information. Due to limitations with the functionality of NRWS and WAS, these databases are used to augment the existing systems and are primarily used to generate 594s, waivers, and Bulk Sales certificates. An Excel spreadsheet is used to store data for the NIT program.

Below is a diagram of the NRWS/WAS environment.

# NRWS/WAS System Overview



## 4.2.1 Existing Infrastructure

### Mainframe Infrastructure

FTB's current mainframe consists of the IBM Z900 E-Server / [REDACTED] with a minimum capacity of 662 usable Millions of Instructions Per Second (MIPS), 24 GB processor memory and 165 ESCON attached channels. The Direct Access Storage Device (DASD) has 2.9 Terabytes of RAID-5 storage to support all major Tax Program areas including access to on-line databases utilizing ADABAS, DB2, and VSAM files. Furthermore, Open Systems DASD has 2.5 Terabytes for Exchange database and on-line backup requirements. There is also an Automated Cartridge System (ACS) that supports twenty-four 3490 and twenty 3590 devices with a Tape cell capacity of 35,000 internal slots.

### Network Infrastructure

The Local Area Network (LAN) at FTB's campus is the heart of the enterprise network. There are nearly 6,000 clients supported on the network. Network users have access to the various system applications via infrastructure devices such as routers, switches, hubs and the mainframe Open Standard Adapters. The current enterprise network topology incorporates over 100 Gigabit Ethernet data switches and primarily uses the TCP/IP protocol suite. The campus topology follows a three-tier enterprise model. This model consists of three distinct functional layers: core, distribution and access. The fastest layer is the Ten Gigabit Ethernet switched backbone network core, which redundantly interconnects the distribution layer switches in Buildings 1, 2, and 3. The distribution layer switches connect to over 80 access layer switches, which terminate to workstations and other network end devices. Additionally, there are a total of three server farm switch environments that provide fault tolerance to the enterprise servers. This network design provides significant advantages, including very high reliability, scalability and manageability.

The Wide Area Network (WAN) incorporates redundant and encrypted frame relay communication links to the In and Out of State field offices. The remote environments incorporate a mixture of over 40 data switched Ethernet hubs for their local network communications.

The WAN, comprised of eight in-state offices and four out-of-state offices, is connected to the LAN by frame relay at rates ranging up to T-1 speeds. The field offices are shared 10BaseT to the desktop. There are a total of 30 routers on the local, metropolitan, and wide area networks. The network infrastructure also has several network management systems for monitoring critical network devices. Concord Network Health is one of the network monitoring tools specifically designed for generating user-friendly performance and usage reports. Cisco Works for Switched Internetworks is also used to monitor and provide alert type notification of network device outages. Furthermore, there are a number of additional tools used to proactively monitor and manage the network.

## Distributed Environment

The FTB has a large distributed computing environment attached to its enterprise network consisting of approximately 350 NT servers, and an estimated 50 UNIX servers. This distributed environment consists of large client/server applications, smaller LAN-based applications, and office automation including electronic mail. UNIX servers provide the primary platform for database and applications services required to support the department's large client/server applications, while Windows servers are used to support the small LAN applications and office automation.

UNIX servers primarily include IBM [REDACTED] IBM [REDACTED], and HP [REDACTED]. Database Management systems on these UNIX servers include Sybase [REDACTED] and IBM [REDACTED]. On-line applications are primarily written using PowerBuilder or Java. Batch applications are primarily written in COBOL or C.

Windows servers are primarily Dell and Compaq, running Windows 2000 and under Active Directory Services. Microsoft SQL Server is the primary DBMS on these servers. Applications accessing these servers are primarily written using Visual Basic or Microsoft Active Server Pages.

Backups for the Distributed systems primarily are captured by one of two automated tape libraries. The TSM backup has capacity of 120TB of tape space, and the Legato backup system has a capacity of 143 TB of tape capacity.

## **5.0 Proposed Solution**

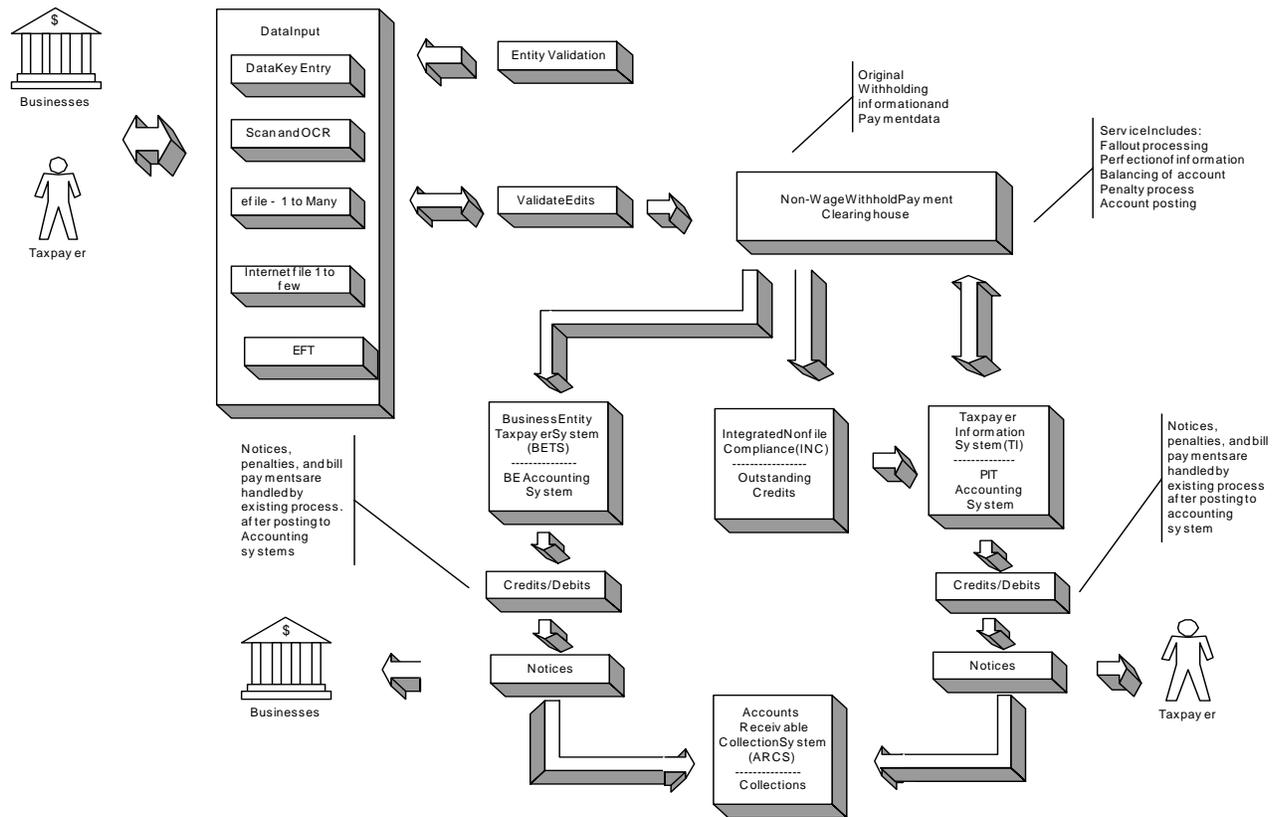
The proposed solution is a comprehensive package that effectively reengineers the processing of non-wage withholding in the department.

The new system to be implemented as a result of the WASS Project would be viewed conceptually as a withholding payment clearinghouse. The department will hire consultants to provide the technical assistance necessary to design and develop the in-house customized application and assist in creating interfaces with existing data entry and accounting systems. . Of the three existing legacy applications, BETS and INC will utilize DB2 as the relational database management system, and TI will utilize ADABAS as the database management system. It is anticipated that existing hardware will be utilized and the new system will be built to connect with FTB's existing data processing systems to process forms and payments. This solution best satisfies our defined objectives and functional requirements of mitigating the information security risks and automates some of the existing manual processes for issuing notices and assessing penalties and interest.

The department would receive withholding forms and payments by means common to FTB's tax clients: electronically, via the Internet, or on paper. The department would capture and validate the information using proven processes and technology, with extension and enhancements to accommodate the volume and specific requirements of the clearinghouse. The primary accounting for the withholding agent payments would take place within this new system, including the automated assessment of penalties and interest. The payments would be allocated to individuals and business entities, and the resulting credits would be transferred to the department's legacy accounting systems. The interface with TI would be enhanced so that withholding credits would be automatically applied to the taxpayer's account. The withholding credits would reside on TI until the taxpayer filed the appropriate tax return claiming the credit. A new interface with BETS would be created so that withholding credits could be allocated to business entity taxpayers once the BE taxpayer files a tax return. In the event a withholding agent files delinquent forms that result in penalties and interest, those calculations would be performed in the clearinghouse and the penalty and interest amounts would be passed to the accounting systems. TI and BETS would generate the appropriate notice for mailing and push the account to ARCS for follow-up actions. Any outstanding credits and the related California source income would be made available via a new interface between the new system and INC. Once the data is exchanged, INC would utilize existing filing enforcement (FE) procedures to calculate tax assessments and generate notices to pursue potential noncompliant taxpayers.

The proposed solution leverages FTB's existing system infrastructure and capabilities and is consistent with FTB's enterprise architecture principles including: interoperability, reusability, portability, maintainability, security, quality, redundancy, and methodology. It also mitigates the immediate risk of FTB not having the infrastructure and functionality to support the current and growing demands of non-wage withholding, while achieving more consistent technology architecture.

The Enterprise Architecture and Data Administration Section acted in a consulting capacity with the FSR Core Study Team and designed the following diagram for this alternative. The withholding payment clearinghouse is the scope of the new service, while the rest of the drawing represents existing services leveraged in the department. Existing services may be modified to support the new service. However, most components are simply reusable for this project.



### 5.1 Solution Description:

- Hardware:** The proposed solution will require the acquisition of approximately ten PC's for use by the technical consultants. In addition, an external DVD writer will be required.

Item	Cost
Laptop – 1GB RAM 2GB RAM, 60 GB HD, 15 inch screen	10,860.00
Mini Docking Station	990.00
Portable Diskette Drive	300.00
Key Board	230.00
19 inch monitors	3,400.00
1 GB Memory Expansion	1,710.00
DVD Writer	250.00
PC Security Cable	310.00
Sub-Total	18,050.00
Tax	1,398.88
<b>Total</b>	<b>\$19,448.88</b>

2. **Software:** The proposed solution will utilize existing software already available within the department. In addition, the following software and training is required:

<u>Item</u>	<u>Cost</u>
WS FTP Pro License + 1 Yr. Service Agreement	720.00
Guardian Edge Encryption Plus Hard Drive	1,000.00
WinZip Standard	260.00
Microsoft Office Pro	3,050.00
Microsoft Windows Server	200.00
Microsoft Exchange	450.00
Adobe Acrobat Pro Govt	1,930.00
Microsoft Visio Pro	2,700.00
Microsoft Project	3,230.00
ClearQuest	38,230.00
Extra Personal Client	1,940.00
Rational Robot	20,055.00
Visual Studio	1,059.00
Req. Mgmt. Tool (licenses)	8,240.00
XML Editor	1,996.00
General Editor	124.98
Editing Interactive Tool	48.00
Employee Software Training	3,975.00
Sub-Total	89,207.98
Tax	6,913.62
<b>Total</b>	<b>\$96,121.60</b>

3. **Technical platform:** The proposed solution will be based in large part on the department's existing hardware infrastructure, from the manual transcription system, hosted on Tandem equipment, and the IPACS imaging system and e-file system, both Intel server-based, to the legacy accounting systems, TI and BETS, on the department's IBM mainframe computer with ██████ Operating System. The hub of the solution, the non-wage withholding payment clearinghouse, will reside on servers currently hosting the outdated NRWS application and database.

In addition, the proposed solution will be developed within the department using database software and programming languages approved within the department's Enterprise Technical Architecture, such as:

- Microsoft's SQL Server database with Visual Studio.Net and the C# .Net programming language in a Microsoft Windows Server environment,
- Software A.G.'s ADABAS database and Natural programming language, or
- IBM's DB2 database and COBOL programming language, in the mainframe IBM ██████ environment.

4. **Development approach:** A project team will be created comprised of department staff with expertise in the specific areas of system architecture, application development, information security, data warehousing, and database administration. The project will be a collaborative effort between the business and technical staff to develop comprehensive business requirements and develop, program, and test the business solution system.

The technical management methodology including requirements management; technical quality management; system development including software detailed design, database design and development, software coding, system integration, and test management; configuration management; implementation management including conversion, training and transition management; and hardware and software installation management will be based on recognized industry standards and best practices.

5. **Integration issues:** The proposed solution requires the integration of the existing NRWS and WAS systems. Business and technical staff will work together to ensure a successful integration.
6. **Procurement approach:** This project will require multiple procurements in the four (4) categories listed. Each of these procurements will be completed through competitive bid processes such as CMAS (Request for Offer process), MSA, or through a Request for Quote (RFQ):
  - Project Oversight and Validation
  - Hardware
  - Software
  - Technical Consultant(s)

Procurement of the necessary hardware and software will be processed utilizing the approved Department of General Services (DGS) procurement guidelines, including FTB's expanded delegated purchasing authority, in accordance with the State Administrative Manual (SAM), Public Contract Code (PCC), SAM Management Memos, and other related provisions.

An Information Technology Procurement Plan (ITPP) will be prepared and submitted to the Department of General Services for review and approval prior to conducting any procurements associated with this project. The ITPP will describe the overall strategy necessary to accomplish and manage the acquisitions required for this project by formally documenting that the proposed approach for the acquisition satisfies state requirements. The ITPP will serve as a reference document and become a permanent record of acquisition decisions.

See Project Schedule (Section 6.5.5) for Key Procurement Milestones/Tasks.

7. **Technical interfaces:** The business requirements for the proposed system will include interfaces with the following systems:
  - Taxpayer Information System (TI) and Return Validation System (RV)
  - Business Entities Taxpayer System (BETS)
  - Integrated Nonfiler Compliance System (INC)
  - E-Gateway
  - Information Capture and Banking Section (ICBS) and Tandem document and payment processing

- Image Processing and Cashiering System (IPACS) and Image Delivery Application Expansion (IDAX)
- Secure Web Internet File Transfers (SWIFT)
- Disaster Zip Application
- Security Audit Logging System (SAL)
- Security Analysis Audit Log Tool (SAALT)

Impacts to these interfaces have been identified and will be addressed during this project. All associated interface costs and related impacts have been included in the total project costs. To mitigate any significant issues, project staff will work with internal FTB sections to develop secure interfaces. A plan for each interface will be developed which will include interface requirements, record layouts including all data elements, interface business rules, interface procedures, testing, and implementations.

8. **Testing plan:** The project’s testing plan will provide a detailed description and outline of activities required for preparing and executing the required level of quality assurance for the application being developed. The testing phases will include unit, performance, system, and acceptance tests. The test process verifies the adherence to the application design in accordance with the business requirements. The objectives of the test strategy are to validate business functionality, verify usability, and architectural integrity.
9. **Resource requirements:** The department will redirect staff resources and submit a Budget Change Proposal for the 2008/09 Fiscal Year for additional resources (hardware, software and contract services).

	FY 07/08	FY 08/09	FY 09/10	FY 10/11	FY11/12	Totals
Project Resources	PY	PY	PY	PY	PY	PY
One-Time State Staff	1.2	6.4	25.3	1.8	0	34.7
One-Time Contractor Staff *	0.0	1.5	7.3	0.0	0.0	8.8
Continuing Project Activities (State Staff)	0.0	0.0	0.0	11.9	13.0	24.9

\* Contractor Staff assumption based on \$150/hour for developers and \$90/hour for testers. 1 PY based on 1,725 hours per year.

10. **Training plan:** A training team comprised of program area staff will be responsible for developing and conducting user training. Depending on the role of the user, an appropriate level of training will be conducted (classroom, on-line, powerpoint). The training team will ensure that appropriate user manuals are provided to assist the users.

In addition, the technical information technology staff will require formal classroom training for the software necessary to develop the proposed solution. The cost for this training is included in the Software Description above.

11. **On-going maintenance:** After implementation, \$1,144,591 (13.0 PY's) will provide on-going system maintenance, including \$31,914 in software maintenance costs annually beginning in FY 2008/09. This is a 4 PY increase from existing system (9.0 PY's) due to new system complexity and numerous interfaces.
12. **Information security:** To ensure data integrity, data security, architectural security, and confidentiality of data, the project team will work closely with the Privacy, Security, and Disclosure Bureau to ensure compliance with departmental security policies, standards, guidelines, and protocols. The proposed solution will:
  - Comply with Federal and State laws regarding information security, privacy and disclosure.
  - Implement applicable information security controls outlined in [National Institute of Standards and Technology \(NIST\) 800-53](#) based on FTB's risk assessment of the system and the information being processed, stored or transmitted by the system.
  - Comply with [Internal Revenue Service \(IRS\) Publication 1075](#) if processing, storing or transmitting federal tax information (FTI),
  - Comply with applicable State Policy found in [SAM, chapter 4800](#).
  - Meet or exceed FTB's security requirements as described in the Department's Information Security Policy File 9500 (ISP).
  - Meet FTB audit logging requirements.
13. **Confidentiality:** The project team will work with the Privacy, Security, and Disclosure Bureau to ensure departmental security guidelines are followed in regard to confidential or sensitive information. Users will only have access to data for which they have an approved business need and their access level to the data will be controlled by their role within the system.
14. **Impact on end users:** The proposed solution will meet the business goals of automating manual workloads and improving customer service by providing an e-file option. All business users will receive training on new graphical user interfaces and functionality. A communication plan will be developed to provide project information to internal stakeholders. This plan will include methods to facilitate change management to the new system.
15. **Impact on existing system:** Maintenance will continue on the existing NRWS and WAS systems until the new system is in acceptance testing. Once the system is implemented, all accounts within NRWS and WAS that meet specific conversion criteria will be migrated to the new system. A conversion plan will be developed and executed as part of this project. This plan will include a timeline for deleting the existing system, Access databases, and any data not meeting the conversion criteria.
16. **Consistency with overall strategies:** To stay on track with the plan outlined in the *Filing 2010* document, this project will expand electronic filing, payment and customer service options for withholding agents. The proposed solution is also consistent with several of FTB's Strategic Goals:

- *Goal #1: Improve Customer Service.* Give customers increased access to information and services while maintaining the highest levels of privacy and security;
- *Goal #2: Increase Fairness and Compliance with Tax Law.* To provide fair and impartial treatment for every taxpayer and identify and implement approaches to resolve tax gap issues, FTB must consistently and fairly apply the withholding laws to all withholding agents and those taxpayers that are nonfilers;
- *Goal #5: Demonstrate Operational Excellence.* Capitalize on opportunities to improve efficiency through process improvement and the implementation of technology-enabled processes and services; and
- *Goal #6: Protect Taxpayer Information and Privacy.* Establish and enforce security and information architectures, including standards relative to aging/retention of data in new systems and purge existing data in accordance with retention principle(s).

In addition, the proposed solution meets the following strategic goals of the 2005 California Information Technology Strategic Plan:

- #1: Make government services accessible to citizens and state clients;
  - #2: Implement common business applications and systems to improve efficiency and cost effectiveness;
  - #3: Ensure State technology systems are secure and privacy is protected; and
  - #4: Lower costs and improve the security, reliability, and performance of the State's IT infrastructure.
17. **Impact on current infrastructure:** The proposed solution's use of current mainframe and network infrastructure and distributed environment will fall within workload growth projections; therefore, implementation of the new system will not adversely impact existing infrastructure.
  18. **Impact on data centers:** It will not have any impact to external data centers.
  19. **Data center consolidation:** FTB is a single-agency, dedicated use data processing center. Data Center consolidation does not apply to FTB.
  20. **Back-up and operational recovery plan (ORP):** The proposed solution will support the nonresident and real estate withholding functions. The department's Business Impact Assessment (BIA) defines this business function as a tier 2 recovery priority with a Recovery Time Objective (RTO) of 3-7 days.

Data backups will be created on a daily basis for all application and user data; it will be kept in a storage vault located near FTB's data center. Once a week, a full set of backups will be sent off-site utilizing an off-site storage vendor managed by the Computing Resources Bureau. The offsite backups will be rotated weekly and a minimum of two generations of backups will be off-site at any time.

The E-Services and Applications Bureau will maintain the proposed system once implemented. The existing resumption plans will be updated to reflect the new system and include recovery strategies for the system. This will also be reflected in the Operation Recovery Plan (ORP) submitted annually to the Department of Finance.

21. **Public access:** The proposed solution does not provide direct public access to State databases by private sector organizations or individuals.
22. **Costs and benefits:** See Section 8.0, EAWs, for cost detail.

One-time costs: \$5,005,435 (34.7 PY's) for staff costs, hardware, software and contract services:

- Staff Costs - \$2,808,847
- Hardware – \$19,449
- Software - \$96,122
- IV&V Services - \$238,354
- DGS Analyst - \$25,923
- Contract Services (Software Customization) - \$1,816,740

On-going maintenance and operations costs: \$1,144,591 (13.0 PY's) for staff cost and software maintenance.

- Staff Costs - \$1,112,677
- Software Maintenance - \$31,914

Benefits - Approximately \$1.5 million in new revenue (\$1.3 million – INC Revenue & \$250k – Penalty Revenue) and PY net savings (\$445,559) each year as follows (also refer to Appendix 3):

- Approximately \$250,000 in increased penalty revenue beginning in FY 2010/2011 as a result of automating penalty assessments.
- An anticipated \$6.6 million in new filing enforcement revenue over a five-year period beginning with \$1.3 million in revenue in FY 2010/2011, with an additional \$1 million annually thereafter.
- Annual Program PY savings (11.25 PY's) that equals \$445,559 in net savings:
  - \$770,628 – Program savings
  - Less \$325,069 – Difference of On-going Maintenance Staff Costs (\$1,112,677) and Existing System Staff Costs (\$787,608)

23. **Sources of funding:** Redirection and Budget Change Proposals (BCPs). The FSR proposes to obtain project funding through a BCP for FY 08/09 and FY 09/10.

## 5.2 Rationale for Selection

The proposed solution best satisfies:

- The business objectives, functional requirements, and Enterprise Architecture vision.
- The balance between the department's need for available project resources and the need for consultants to assist department project staff.
- The business needs without increased risk to the project.

The proposed solution best coordinates the use of existing architecture and department systems for capturing and processing data and payments, allocating the payments to the correct taxpayers, and processing billing notices. This proposed solution is most compatible with the department's legacy accounting systems, TI and BETS, by creating a new system that is a clearinghouse that captures the withholding information and allows TI and BETS to receive the information once validated. Keeping the data capture, validation, and payment allocation outside of TI and BETS allows these systems to retain their status as the department's true accounting systems. The proposed solution will demonstrate operational excellence by:

- Significantly improving the operational efficiencies regarding non-wage withholding;
- Increasing transparency regarding the processing procedures for non-wage; withholding operations;
- Improving service to our internal and external stakeholders;
- Ensuring fairness and compliance with the withholding laws;
- Protecting withholding agent and taxpayer information and privacy;
- Leveraging existing and proven functionality;
- Securing access to data and functionality; and
- Maximizing system development consistent with requirements.

The proposed solution will be compatible with the direction of strategic enterprise systems within the department. It will be designed to be open, flexible, scaleable, and secure with the ability to allow for the addition of new technologies as they become available. In addition, the proposed solution will begin to address the department's upcoming need to replace the Microsoft [REDACTED] operating software, as it will become outdated and unsupported, as discussed below.

Microsoft stopped [REDACTED] mainstream support in March 2005 and will stop extended support in April 2008. In the meantime, Microsoft provides the XP operating system with mainstream support until 2009, and extended support until 2014. Fortunately [REDACTED] Run-Time Libraries necessary to run [REDACTED] application is part of XP. As long as [REDACTED] can run on users machines, developers will be able to modify the code to enhance/maintain the applications.

- 'Mainstream support' through 2009 indicates Microsoft delivers any changes (patches for improvements or defect fixes) to this product – XP operating system.
- 'Extended support' through 2014 is only for XP operating system security fixes and the [REDACTED] 'Run-Time Libraries'.
- Microsoft claims that [REDACTED] applications will work on Vista, but does not guarantee it will work with further with new window operating systems after Vista. Vista was

released in late 2006 and the general Microsoft software lifecycle is about 6 years. Therefore, it's projected that Microsoft will release another window operating system sometime around 2014 when Microsoft extended support ends.

A preliminary review of the 34 other VB [REDACTED] applications within FTB leads us to conclude that NRWS has a much higher risk that needs to be addressed because this application actually processes and distributes money that is collected in the door. As a result, an enterprise approach is not deemed necessary to replace all VB applications at this time. However, FTB will do a risk assessment to identify the priority for other systems to be migrated.

This project, if implemented, would mitigate the risk of system failure that could effectively stop taxpayer payment processing and payment distribution and it would protect the state from losing penalty and interest revenues. In addition, the solution best satisfies the objectives and requirements, compared to the other alternatives considered, for the following reasons:

- Complies with FTB's strategic vision, enterprise technology architecture, and enterprise application architecture
- Provides business users with better and more current access to data at their fingertips
- Allows withholding agents access to filing and payment options via web access

## 5.3 Other Alternatives Considered

### 5.3.1 Describing Alternatives

**Alternative 1:** Implement the proposed solution discussed above using additional consultants to test the new system and related interfaces.

Advantages:

1. Adding consultants for system testing would allow the department resources that would be redirected to assist with testing to continue their existing workloads full time.
2. Relying on consultants for system testing may ensure timely implementation and mitigate the risk that department resources may become unavailable for redirection due to mission critical system changes.

Disadvantages:

1. Additional testing consultants would increase Budget Change Proposal (BCP) request in FY 09/10 to \$2,481,108 (\$909,469 over proposed alternative). Overall BCP request to \$3,129,978 (\$814,385 over Proposed Alternative).

Costing

Economic Analysis Worksheets were completed for this alternative and are attached.

**Alternative 2:** Utilize the existing department accounting systems, TI and BETS, as the primary systems to capture and validate payments and data, eliminating the need for a separate database or system for withholding payments. This alternative also allows for the automation of existing manual processes for issuing notices and assessing penalties and interest. In addition, this alternative includes implementing:

- A commercial based e-file program and a web-hosted e-file and e-pay application for withholding forms that is similar to the existing Calfile application for tax forms,
- Payment processing and data capture through ICBS using IPACS imaging technology to allow forms to be viewable through IDAX.
- Payment processing and data capture through ICBS using existing tandem processing for those forms that are unable to be processed through IPACS.

With this alternative, the department would receive paper and electronic payments and forms, which would be captured, validated, and allocated to the withholding agent and taxpayer on TI and BETS. Withholding credits would be posted and reside on the taxpayer account until a tax return is filed. Penalties and interest would be calculated and posted in TI and BETS, which would then generate the appropriate notice for mailing and push the account to ARCS for follow-up actions.

Advantages:

1. The withholding credit could be processed, validated, and posted directly to a file or the taxpayer's actual account on TI or BETS.
2. The withholding credits would be available on the taxpayer's TI or BETS account once processed, instead of waiting for the taxpayer to file a return and have the credit moved from another system at that point.

3. TI and BETS could implement future enhancements to withholding processing during normal annual changes.

Disadvantages:

1. Requires TI to create a separate information data store to capture and validate data prior to posting to taxpayer account. BETS would create a form to capture and store the information.
2. Hinders the ability to consolidate the real estate withholding forms. In order to process to the appropriate system, the taxpayer and withholding agent information should be captured on two separate forms.
3. Requiring ICBS to capture and process withholding forms will require the creation of a “multiple page processing” environment that does not exist today.
4. ICBS can only accommodate 100 forms for payment submitted by a withholding agent. Each form could have the same DLN with each form receiving a separate item number (0-99).
5. Difficulties in automating the Form 594 and 588 waiver processes within the accounting systems. The waivers are outside the existing functionality of an accounting system and both TI and BETS would incur significant costs to develop the functionality to process these workloads.
6. Difficulties in automating the NIT return processing and Bulk Sales certificate processes within the accounting systems. These are outside the existing functionality of an accounting system and both TI and BETS would incur significant costs to develop the functionality to process these workloads.
7. Accounting systems do not currently have an interface that would support the relationship of withholding payments first being posted to the withholding agent business account and then allocating the resulting credit to the individual taxpayer accounts. TI and BETS would incur significant costs developing this interface.

Costing

Since this alternative does not fully meet all the requirements outlined in this study, costing was not completed for this alternative.

**Alternative 3:** Utilize EDD to capture and process nonresident and/or real estate withholding or build a system internally that mirrors the EDD processing system. EDD offers a wide variety of services to residents of the state regarding jobs, employment, and disability and unemployment insurance. In addition, EDD handles the audit and collection of payroll taxes and maintains employment records for more than 21 million California workers. Each year, EDD collects more than \$41 billion in payroll taxes, including nearly \$25 billion in personal income tax and processes more than 30 million employer payroll tax documents and remittances.

Employers must report wage and withholding amounts on a Quarterly Wage and Withholding Report. They provide EDD with the name, SSN, total wages, PIT wages, and amount of PIT withheld. In addition to the quarterly reports, the employers are required to file an Annual Reconciliation Statement that reconciles the wages reported and taxes paid for the prior calendar year.

Any business or government entity that is required to file a Federal Form 1099-MISC for services performed by an independent contractor must report the independent contractor to

EDD. This information is used to assist state and county agencies in locating parents that are delinquent in their child support payments.

Advantages:

1. Processing non-wage withholding that is generally considered income (rents, royalties, distributions from estates and trusts, etc.), may be more compatible with the EDD processing environment that handles wage withholding.
2. Reporting independent contractors is already required for purposes of locating parents for child support payments.
3. EDD currently provides various filing methods for employers to submit reports and payment, including:
  - a. Telefile – Small employers (6 employees or less) can file and pay their payroll taxes by telephone. Some household employers can also file their annual return by telephone.
  - b. iFile – Allows employers to complete and submit the Quarterly Wage and Withholding Report and view previously filed reports online.
  - c. iICR & iNER– Allows online completion and submission of the Report of Independent Contractors and Report of New Employees.
  - d. EFT – This program allows employers to submit payments using electronic funds transfer. Employers that meet specific criteria are mandated to use the EFT program.
  - e. EZPAY – Allows payment of taxes with a major credit card.
  - f. Magnetic Media – Allows employers and tax preparers to file Quarterly Wage and Withholding Reports, Annual Reconciliation Statements, and Reports of Independent Contractors, by diskettes, tape cartridges, tape reels, and CD-Rs.

Disadvantages:

1. The existing EDD tax accounting system consists of a database that uses outdated and aging technology.
2. EDD and FTB use two different methods of identifying business entities, which are incompatible with each other's existing systems. Generally, EDD assigns business entities an employer account number. FTB uses the FEIN or California Corporation Number reported on withholding forms and payments.
3. Processing withholding on real estate transactions would be outside the normal scope of wage reporting and withholding currently transacted by EDD as they lack the knowledge and resources to follow-up on real estate accounts as needed.
4. Withholding on non-wage distributions regarding estates, trusts, partnerships, and foreign partners may also fall outside the normal scope of EDD's transactions.
5. This alternative could create confusion for withholding agents and taxpayers because EDD would process the payments while FTB would handle any exception processing or follow-up with withholding agents and taxpayers.
6. The existing EDD tax accounting system lacks the flexibility to create and produce new management and fiscal reports.

Costing

Due to the following reasons, it was determined that pursuing options with EDD would not be viable at this time.

- ✓ In order to transfer responsibility for the existing nonresident and real estate withholding program to EDD, legislative changes would be required.
- ✓ The existing database at EDD lacks the ability to perform some of the functions being sought with this FSR.

As a result of the above, costing was not completed for this alternative.

## **6.0 Project Management Plan**

### **6.1 Project Manager Qualifications**

The Project Manager is an Administrator II in the Withholding Services & Compliance Section within the Filing Division. She has 14 years of experience at the Franchise Tax Board with 5 years of management experience in the Accounts Receivable Management Division and the Filing Division. She was on the Bankruptcy Section business team during the development and implementation of the Accounts Receivable Collection System (ARCS). She assisted in the development of the ARCS Bankruptcy Functional Areas, identified system defects, submitted defects and enhancements through the change control process, and trained users. She was on the business team for the Child Support Recovery System Modified OTW Project where she defined business requirements and trained FTB and county staff on legislative and system changes. She was the lead of the Withholding Services & Compliance Section Business Process Reengineering Team, which identified recommendations to improve customer service and streamline forms and processes. She has completed several project management classes. She has demonstrated an ability to communicate, direct, and lead teams from varied backgrounds. The Project Manager has effective communication and problem solving skills, and has developed an excellent working relationship with staff and management.

### **6.2 Project Management Methodology**

The FTB project management methodology is based on *A Guide to the Project Management Body of Knowledge* (PMBOK) Third Edition; SIMM Section 45, Appendix A; and SIMM Section 200, *Project Management Methodology Guidelines*. For reportable projects, the Project Manager will, at a minimum, implement the required project management practices specified in SIMM 45. For delegated projects, the Project Manager will follow generally accepted project management practices appropriate to the project's level of complexity.

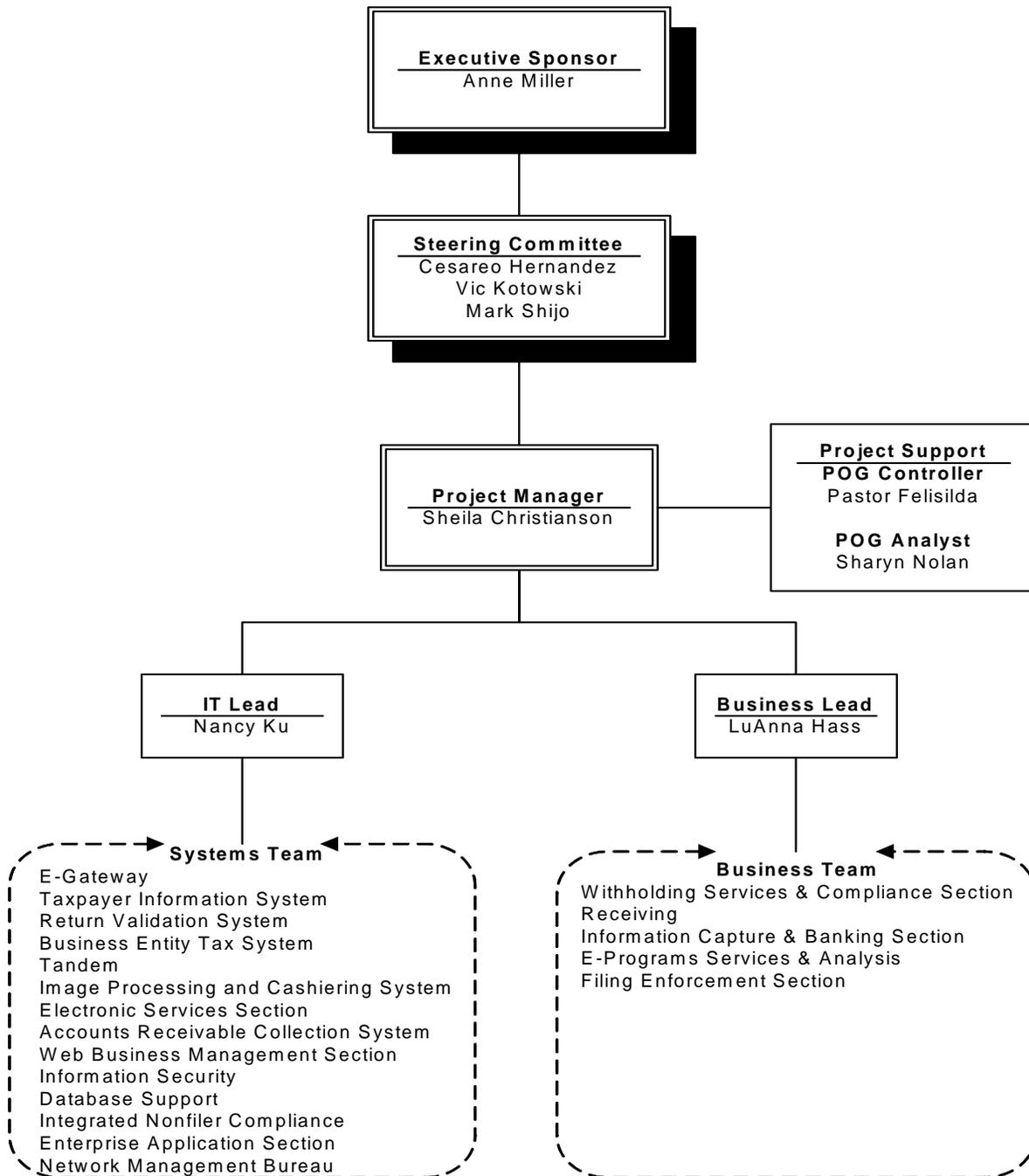
### 6.3 Project Organization

A successful project involves input, review, and involvement from many business areas, as well as from a number of technical areas of expertise. The key project team members are:

**Project Sponsor:** Anne Miller

**Project Manager:** Sheila Christianson

**WASS Implementation Team:**



### **Project Customer(s):**

- Taxpayer Information System (TI) and Return Validation System (RV)
- Business Entities Taxpayer System (BETS)
- Accounts Receivable Collection System (ARCS)
- Electronic Services Section (ESS)
- E-Gateway
- Integrated Voice Response (IVR) system and Computer Telephony Integration (CTI)
- Information Capture and Banking Section (ICBS) and Tandem document and payment processing
- Image Processing and Cashiering System (IPACS) and Image Delivery Application Expansion (IDAX)
- Secure Web Internet File Transfers (SWIFT)
- Disaster Zip Application
- Web Business Management Section
- Information Validation Section (IVS)
- Business Entities Section (BES)
- Taxpayer Services Center Section (TSCS)
- Filing Enforcement (FE) Section
- Taxpayer Advocate Bureau
- Network Management Bureau
- External Customers: Withholding Agents

### **6.4 Project Priorities**

<b>Schedule</b>	<b>Scope</b>	<b>Resources</b>
Accepted (Most flexible)	Constrained (Not Flexible)	Improved (Somewhat Flexible)

### **6.5 Project Plan**

During start up, the project manager or designee will follow FTB's project management standards and guidelines, which are based on PMBOK to develop the project plan. Microsoft Project or a similar tool will be used to develop the timeline and track the schedule, hours, resources etc. Each separate team will maintain their own project plan and communicate their status to the Project Manager.

#### **6.5.1 Project Scope**

Develop a system to increase the operational efficiency of capturing, processing, and validating withholding information and payments received by the department while consistently and fairly administering the withholding laws.

### 6.5.2 Project Assumptions

1. For the life of the project, management will place this project high on their list of priorities.
2. The functional requirements stated in Section 3.4, Business Functional Requirements, are attainable.
3. The necessary technical and business staff will be available to develop and deploy the project.
4. Funding will be available to support the procurement needs of the project.
5. Other system workloads will not impact the ability to complete this project.

### 6.5.3 Project Phasing

This project will not require project phasing and if this project were approved, the proposed solution would be implemented by August 1, 2010.

### 6.5.4 Roles and Responsibilities

Role	Responsibilities
Project Sponsor	<ul style="list-style-type: none"> <li>• Ensure that the project conforms to departmental guidelines</li> <li>• Approve project study plan and implementation</li> <li>• Ensure necessary department resources are available</li> </ul>
Project Steering Committee	<ul style="list-style-type: none"> <li>• Decision making and approval</li> <li>• Provide project guidance for issues the project team is unable to resolve</li> <li>• Ensure availability of necessary project resources for the study and implementation</li> </ul>
Project Manager	<ul style="list-style-type: none"> <li>• Select team and assign tasks</li> <li>• Facilitate meetings</li> <li>• Identify and resolve project issues</li> <li>• Provide status report to Project Sponsor, Steering Committee, and Team</li> <li>• Manage project implementation</li> <li>• Evaluate and report project effectiveness</li> <li>• Approve all deliverable documents</li> </ul>
Business Lead	<ul style="list-style-type: none"> <li>• Provide support with FSR, project scope, objectives, and deliverables</li> <li>• Identification of system requirements to meet business needs</li> <li>• Facilitate communication with clients on all aspects of the project</li> <li>• Identify personnel necessary to work with technical team to complete the study and implement and support the project upon approval</li> <li>• Approve General System Design Documents and Detailed System Design Documents</li> <li>• Approve all Business Requirements</li> </ul>
Technical Lead	<ul style="list-style-type: none"> <li>• Develop approach/recommendation to meet the business requirements, which includes the development of the new system and on-going maintenance thereafter</li> <li>• Identify personnel necessary to implement project</li> <li>• Manage project risks</li> <li>• Approve General System Design Documents and Detailed System Design Documents</li> </ul>
Business Staff	<ul style="list-style-type: none"> <li>• Provide input on project scope, objectives, and deliverables</li> <li>• Identify processes necessary to implement the project</li> <li>• Provide input on development of system design and requirements</li> <li>• Provide technical program and processing expertise for the duration of the</li> </ul>

Role	Responsibilities
	<ul style="list-style-type: none"> <li>project</li> <li>• Provide status updates on task assignments</li> <li>• Identify policy and implementation issues related to the project</li> </ul>
Technical Staff	<ul style="list-style-type: none"> <li>• Provide input on project scope, objectives, and deliverables</li> <li>• Identify processes and system programming necessary to implement the project</li> <li>• Provide technical expertise for the duration of the project</li> <li>• Provide status updates on task assignments</li> <li>• Identify policy and implementation issues related to the project</li> <li>• Design, develop, test, and deploy the project as described in this FSR</li> </ul>
POG Controller	<ul style="list-style-type: none"> <li>• The project controller monitors the project timelines and budget to ensure project stays on track and within scope</li> </ul>
POG Analyst	<ul style="list-style-type: none"> <li>• The POG analyst monitors the progress of the project and assists in the development, review, and approval of required documentation</li> </ul>
Procurement Analyst	<ul style="list-style-type: none"> <li>• Identify correct procurement processes to follow</li> <li>• Provide procurement guidance</li> <li>• Execution of the Contract/Delegation Purchase Order (Std. 65)</li> <li>• Point of contact between the Contractor and the Project Manager for issue resolutions</li> </ul>

## 6.5.5 Project Schedule

<b>Task</b>	<b>Start</b>	<b>Finish</b>	<b>Deliverable</b>	<b>Milestone</b>
Governance Council FSR Approval	03/01/07	03/08/07	FSR	FSR approved by GC
Agency Approval (external)	04/03/07	04/23/07	FSR	Agency Approval
Finance Approval (external)	04/26/07	01/10/08	FSR	Finance Approval
Complete Information Technology Procurement Plan (ITPP) and obtain approval	11/01/07	01/31/08	ITPP	ITPP Approved
Project Start	01/10/08	01/10/08	-----	Project Started
Prepare & Release Bid Document for IV&V Oversight Services	01/10/08	02/11/08	Solicitation Documentation	Release Bid Document
Receive Vendor Proposals for Oversight Services	03/10/08	03/10/08	Vendor Proposal Documents	Receive Vendor Proposals
Evaluate/Review Vendor Proposals	03/12/08	04/14/08	Approved Evaluation & Selection Report	
Award Oversight Vendor Agreement	07/01/08	07/01/08	Prepare Agreement Documents	Agreement Sent To Vendor
Oversight Vendor Starts	07/15/08	07/15/08	Approved Contract (as of Budget signing)	
Research: Develop & Release Competitive Bid Solicitations for Technical Consultants	07/01/08	09/01/08	Bid documents ready for advertisement and distribution	Bid documents completed and sent to vendors
Software/Hardware Research: Develop & release competitive bid solicitation document for software license acquisitions	07/01/08	09/01/08	Bid documents ready for advertisement and distribution	Bid documents completed and sent to vendors
Project Planning	07/01/08	09/30/08	Detailed Project Plan	Approved Project Plan
Receive Vendor Proposals for Technical Consultants	10/10/08	10/10/08		
Receive Vendor Proposals for Software/Hardware Products	10/10/08	10/10/08		
Review Technical Consultants Bid Responses	10/13/08	11/14/08	Bids Submitted	Bids received, reviewed, and awardees selected
Review Bid Responses for Software/Hardware	10/13/08	11/07/08	Bids Submitted	Bids received, reviewed, and awardees selected
Award Technical Consultant Agreement	12/01/08	12/01/08	Prepare Agreement Documents	Agreement sent to Vendor
Award Procurement Software/Hardware Agreements	11/14/08	11/14/08	Prepare Agreement Documents	Agreement sent to Vendors
Technical Consultant Starts	01/08/09	01/08/09	Approved Contract	
Receive Software	01/08/09	01/08/09	Software	Software Received

Develop Business Requirements	08/01/08	12/31/08	Business Requirements Document	Requirements completed
Develop System Requirements	12/08/08	02/28/09	System Requirements Document, Requirements Traceability Matrix, User Acceptance of Requirements	Requirements completed
Design System	03/01/09	05/31/09	Detailed design documents; User Approval of design document	Design completed
Develop System	06/01/09	03/30/10	Code	Software coding completed
Test	10/01/09	04/30/10	Test Plan, User Acceptance of Test Results	System test completed
Conversion	02/01/10	05/31/10	Converted Database	Conversion Completed
User System Acceptance Testing	05/01/10	07/31/10	User Acceptance document	System accepted
Training	06/01/10	07/31/10	Training Plan, User Training Manual	User training completed
Implement into Operation	08/01/10	08/01/10	-----	System operational
Conduct Project Retrospective	09/01/10	09/30/10	Lessons Learned document	Project Retrospective completed
Prepare Post Implementation Evaluation Report (PIER)	8/01/11	1/31/12	PIER	PIER completed

## 6.6 Project Monitoring

The independent project oversight requirements specified in SIMM 45 will be followed; the oversight reviews will be consistent with the project criticality rating established by OTROS/Finance.

## 6.7 Project Quality

The project leads are responsible for the project's quality assurance. These responsibilities will include clarification of requirements and verification that unit and system testing address these requirements. The responsibilities will include assurance that risks are adequately identified and mitigation plans are identified and appropriate.

The Project Manager is responsible for assuring the quality of the project. It is the Project Manager's role to monitor schedules, implementation plans, prerequisites, and confirm that all project expectations are met.

The Project Manager will submit project status reports to the sponsor and steering committee. The project manager will schedule monthly status meetings with the steering committee. These meetings will address:

- Tasks accomplished
- Tasks that missed scheduled completion dates and the related impacts.

- Upcoming tasks
- Identification, progress or outcomes of problems or issues
- Identification of new risks
- Occurrence of risks
- Risk mitigation

At a minimum, project team and technical staff meetings will be held on a weekly basis. Team meetings will address any issues and areas of concern identified in the status reports given at the meetings. The team will review the project schedule, identify and determine a course of action or mitigation for any items that are off schedule and address resource concerns or any other issues.

## **6.8 Change Management**

The project will be conducted in accordance with the developed and completed Change Management Plan.

## **6.9 Authorization Required**

This project requires approval by the Governance Council, the State and Consumer Services Agency, and the Department of Finance. Additionally, approval of the Information Technology Procurement Plan is required by the Department of General Services.

## **7.0 Risk Management Plan**

### **7.1 Risk Management Approach**

The Risk Management Plan that the Franchise Tax Board has developed to identify, analyze, respond to, monitor, and control project risk is based on *A Guide to the Project Management Body of Knowledge* (PMBOK) 2000, Chapter 11, issued by the Project Management Institute, and SIMM Section 45.

### **7.2 Risk Assessment Matrix**

The high-level project risks are identified in the Risk Assessment Matrix – see Appendix 2.

### **7.3 Assessment**

The high-level risk assessment is an initial broad view of the risk associated with the project. The identification of all potential risks uses the project work breakdown structure, project plan, and the PMBOK knowledge areas as input to the process.

#### **7.3.1 Risk Identification**

During the planning stage of the project, risk information is gathered in an initial meeting of the project manager and the project team members. Project staff are asked to bring a list of potential risk items to the meeting. The staff discussion of risks generates a complete list of potential risks.

#### **7.3.2 Risk Analysis and Quantification**

After identifying the potential risks, the project team reviews each risk to determine if it is tangible and measurable. Based on the analysis of each risk, the set of risks that will be formally managed are those deemed most likely to have a negative impact to the project.

#### **7.3.3 Risk Prioritization (Severity)**

The severity of a risk determines its priority and is based upon 1) potential impact of the risk on the project, 2) the probability of occurrence, 3) the risk mitigation timeframe and 4) risk exposure. The determination of risk severity is a qualitative assessment that takes into account both internal and external risk factors. At a minimum, the highest severity risks will be tracked in the project Risk Assessment Matrix.

### **7.4 Risk Response**

The project team has identified the risk mitigation response to each of the risks listed in the project Risk Assessment Matrix. For each response that is accepted, a contingency plan has been developed and is summarized in the *Risk Mitigation and Contingency Plan* template for that risk.

## **7.5 Risk Tracking and Control**

The objective of the Tracking and Control phase is to ensure that all steps of the risk management process are being followed and, as a result, risks are being mitigated. Risk tracking and control involves the oversight and tracking of risk mitigation action plan execution, contingency plan execution, re-assessment of risks, reporting risk status, and recording risk information changes in the project Risk Matrix.

### **7.5.1 Risk Tracking**

The project manager is responsible for the high-level oversight of the execution of mitigation and contingency plans for all risks identified in the project Risk Assessment Matrix. The project manager is responsible for ensuring that the project sponsor is updated and approves of all changes in status for high-severity risks.

### **7.5.2 Risk Control**

The project manager will re-assess the risk information in the project Risk Assessment Matrix to determine if any changes are needed. For example, the risk severity or timeframe could change based upon project events or other information. Re-assessment of risk information will be performed on a monthly basis; it may be performed more frequently if needed.

Risk status is included as part of the project status meetings. Risk status reporting will focus on high severity risks. Information presented will include the status of risk mitigation plans, changes in risk severity for known risks, and any new risks identified.

## **8.0 Economic Analysis Worksheets (EAWs)**

See attached EAWs.

### ***List of Attachments***

1. Executive Project Approval Transmittal
2. Project Summary Package
3. EAWs
4. Appendix 1. Project Criticality Evaluation Factor
5. Appendix 2. Risk Assessment Matrix
6. Appendix 3. Withholding Services and Compliance Section Projected Costs, Revenue, and Savings

## Appendix 1. Project Criticality Evaluation Factors – Reportable Projects

<b>Size</b>	Medium	One-time costs are \$5,005,435 and estimated period from project approval to initial implementation is greater than 24 months.
<b>Project Manager</b>	High	<p><u>Sheila Christianson, ADII</u>  The Project Manager is an Administrator II within the Filing Division. She was on the Bankruptcy Section business team during the development and implementation of the Accounts Receivable Collection System (ARCS). She assisted in the development of the ARCS Bankruptcy Functional Areas, identified system defects, submitted defects and enhancements through the change control process, and trained users. She was on the business team for the Child Support Recovery System Modified OTW Project where she defined business requirements and trained FTB and county staff on legislative and system changes. She was the lead of the Withholding Services &amp; Compliance Section Business Process Reengineering Team which identified recommendations to improve customer service and streamline forms and processes. She has 14 years of experience at the Franchise Tax Board with 5 years of management experience in the Accounts Receivable Management Division and the Filing Division.</p>
<b>Project Team</b>	Medium	<p><u>Nancy Ku</u>  DPM III in eServices and Applications Bureau (eSAB), 16 years of IT project and application development experience. Major projects include: Technical project manager for Enterprise Administrative Management System (EAMS) and TI Archiving with FTB, and Applicant Tracking System with the Department of Consumer Affairs; Project oversight/mentor for TimePortal Enterprise Rollout and CalStar Work Activities Reporting, Regional Transit Tracking System, e607 Position Tracking System, and Contract System. Master degree with major in Computer Science and completed PMP training series.</p> <p><u>LuAnna Hass</u>  Senior Operations Specialist in Withholding Services and Compliance Section. Six years experience as an analyst, including four years as a legislative analyst. Legislative Team Leader for various system related legislation, including Tax Amnesty – 2 years; SB 25: SSN Privacy – 1 year; and Use Tax – 1 year.</p> <p><u>Ron McCarley</u>  Staff Programmer Analyst in the Withholding Services Development Group. Programmer for WAS application – 2 years; Tester for NRWS application – 2 years; (Transportation Management System) for FedEx Ground as application designer &amp; lead of ‘train the trainers’ program for a new application roll-out – 2.5 years.</p>

		<p><u>Vincent Espinosa</u>  Data Processing Manager II in Tax Systems Management Bureau (TSMB). Major projects include: E-Truck and Block Project; Military &amp; Disaster Project; Amnesty Project; and SITLP (IRS Offset Processing)</p> <p><u>Les Johnson</u>  Senior Programmer Analyst Specialist in TSMB. Lead Programmer – Bets Front-end 6 years; BETS Programmer 11 years; 14 years with USAF – various platforms – mainframe/onboard/tactical/radar imaging/reporting  25 years total experience – Mainframe/PC application development/maintenance.</p> <p><u>Tom Nast</u>  DPM III in INC Technology. Certified Project Management Professional (PMP) with more than 20 years of IT project experience. Major projects include: Project Manager for the Integrated Nonfiler Compliance (INC) system.</p> <p><u>Brenda Banta</u>  DPM II in TSMB. Major projects include: Amnesty, 1.5 years; AB 911, 9 months; B&amp;C Redesign, 6 years.</p>
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<b>Project Type Elements</b>	Medium	<u>Component: Hardware</u> Activity – New Install Element – Distributed / Enterprise Server Rating – Medium  Activity – Update / Upgrade Element – Distributed / Enterprise Server Rating – Low  Activity – Infrastructure Element – Distributed Network Rating – Low
		<u>Component: Software</u> Activity – Custom Development Element – Distributed / Enterprise Server Rating – High  Activity – Custom update/Upgrade Element – Distributed / Enterprise Server Rating – High  Activity – Infrastructure Element – Middleware Rating – Medium  Activity – Infrastructure Element – DBMS Rating – Medium

### Project Score Table

(a) Factor		(b) Rating
1	Size	2
2	Project Manager	3
3	Project Team	2
4	Type	2
Total		9
Average		2.25
Project Rating		Medium

Step 1: Total column (b) and enter in the Total field.

Step 2: Divide the Total field value by four and enter in the Average field.

Step 3: Using the Average field value, assign the project rating by selecting High, Medium, or Low from the table below.

Average Results	Project Rating
2.26 – 3.0	High
1.51 – 2.25	Medium
1.0 – 1.5	Low

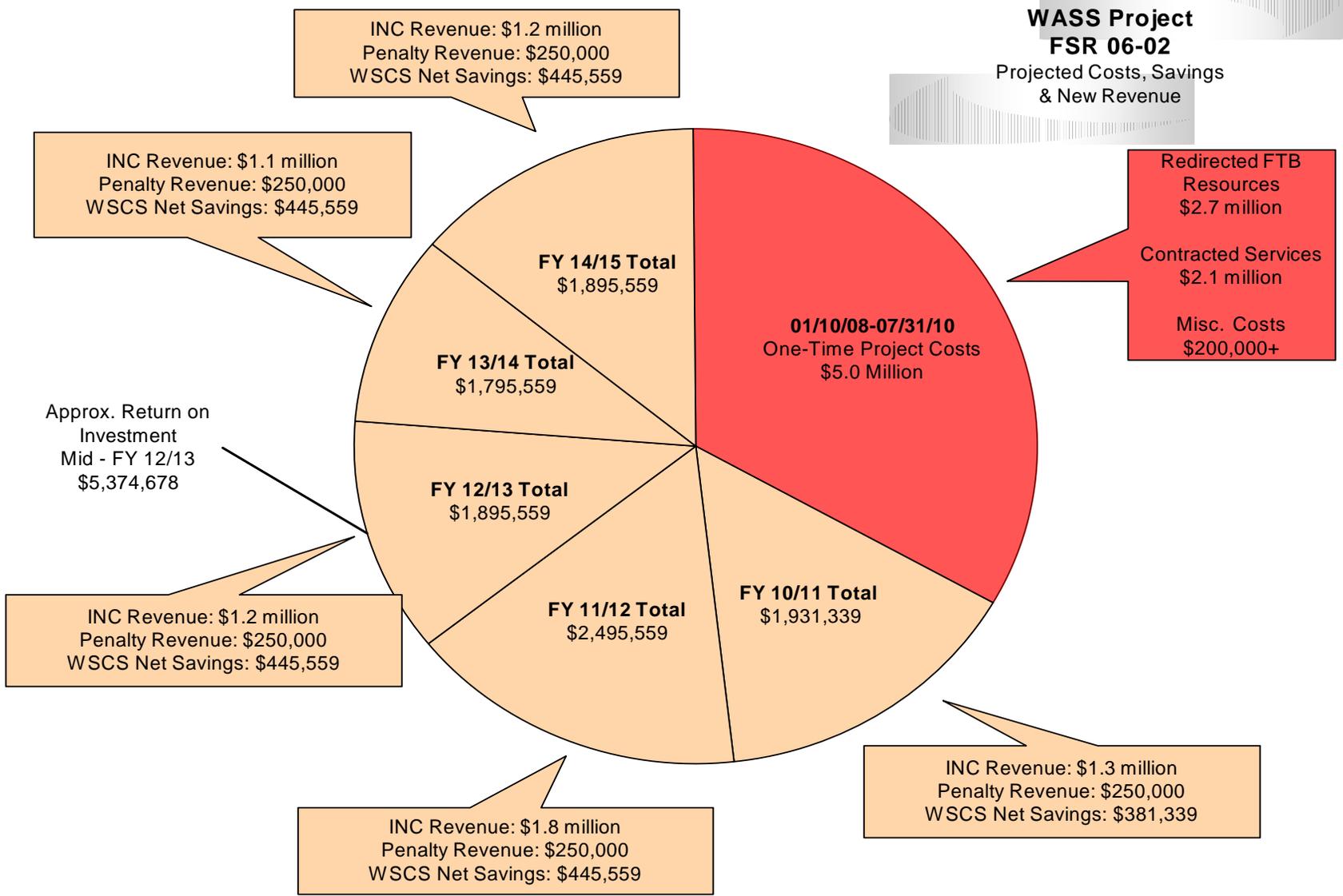
## Appendix 2. Risk Assessment Matrix

Risk ID#	Risk Category	Risk Statement	Impact	Probability	Exposure	Time Frame	Severity	Mitigation Response	Risk Status
1	Schedule	Planned staff resources not available will likely result in delayed implementation	High	Medium	High	Short	High	Reduce	Approved
2	Schedule	Overall system effort greater than estimated will likely result in schedule slip	High	Low	Medium	Medium	Medium	Reduce	Approved
3	Schedule	Diverting resources to higher priority workloads will likely result in delayed implementation	High	Medium	High	Short	High	Reduce	Approved
4	Schedule	Staff training or workloads not completed timely will likely result in delayed development and testing	Medium	Low	Low	Short	Medium	Reduce	Approved
5	Schedule	Key team members leaving FTB will likely result in schedule slip	Medium	Low	Low	Short	Medium	Accept	Approved
6	Schedule	Adding functions outside scope will likely result in delayed development	Medium	Medium	Medium	Short	High	Eliminate	Approved
7	Schedule	Development of insufficient interface will likely result in delayed implementation	High	Low	Medium	Medium	Medium	Reduce	Approved
8	Schedule	Delay in procurement process will likely result in delayed development	Medium	Medium	Medium	Short	High	Accept	Approved
9	Organization	Budget cuts will likely result in delayed implementation	Medium	Low	Low	Short	Medium	Reduce	Approved
10	Organization	Lack of specific developer expertise will likely result in delayed testing	Medium	Medium	Medium	Medium	Medium	Reduce	Approved
11	Development	Developer tools not working as expected will likely result in delayed testing	Medium	Low	Low	Medium	Low	Reduce	Approved
12	Requirements	Poorly defined requirements will likely result in delayed development and lost functionality	High	Medium	High	Short	High	Reduce	Approved
13	Requirements	Introduction of additional requirements will likely result in delayed development	High	Medium	High	Short	High	Eliminate	Approved

Risk ID#	Risk Category	Risk Statement	Impact	Probability	Exposure	Time Frame	Severity	Mitigation Response	Risk Status
14	Design	Key software or hardware becoming unavailable or no longer supported will likely result in delayed development	Low	Low	Low	Long	Low	Eliminate	Approved
15	Design	Not getting the necessary functionality will likely result in delayed implementation	Medium	Low	Low	Long	Low	Reduce	Approved
16	Design	Underestimating data conversion will likely result in delayed testing	Medium	Medium	Medium	Medium	Medium	Reduce	Approved
17	Design	Insufficient hardware/software resources will likely result in design change	Medium	Low	Low	Short	Medium	Reduce	Approved
18	Implementation	Overestimating business cost savings will likely result in delayed savings in staff resources	Low	Low	Low	Long	Low	Accept	Approved
19	External	Lack of withholding agent participation in e-file will likely result in decrease in processing savings	Low	Low	Low	Long	Low	Accept	Approved
20	Project Management	Project Manager has not managed a like project	Medium	Medium	Medium	Long	Low	Mitigate	Approved

**Appendix 3**

**WASS Project  
FSR 06-02**  
Projected Costs, Savings  
& New Revenue



Department: Franchise Tax Board  
 Project: Withhold At Source System (06-02)  
 Date: 08/02/07

**EXISTING SYSTEM/BASELINE COST WORKSHEET**  
 All costs are shown in whole (unrounded) dollars.

FSR EAW

	FY 2007/08		FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		TOTAL	
	PYs	Amts	PYs	Amts								
<b>Continuing Information</b>												
<b>Technology Costs</b>												
Staff (salaries & benefits)												
<b>Total Staff Costs</b>	<b>9.0</b>	<b>768,051</b>	<b>45.0</b>	<b>3,840,255</b>								
Hardware Lease/Maintenance		0		0		0		0		0		0
Software Maintenance/Licenses		0		50,000	/1	50,000		50,000		50,000		200,000
Contract Services		0		0		0		0		0		0
Data Center Services		0		0		0		0		0		0
Agency Facilities		0		0		0		0		0		0
Staff OE&E		19,557		19,557		19,557		19,557		19,557		97,785
Other		0		0		0		0		0		0
<b>Total IT Costs</b>	<b>9.0</b>	<b>787,608</b>	<b>9.0</b>	<b>837,608</b>	<b>9.0</b>	<b>837,608</b>	<b>9.0</b>	<b>837,608</b>	<b>9.0</b>	<b>837,608</b>	<b>45.0</b>	<b>4,138,040</b>
<b>Continuing Program Costs:</b>												
Staff	40.0	2,094,173	40.0	2,094,173	40.0	2,094,173	40.0	2,094,173	40.0	2,094,173	200.0	10,470,865
Other		86,836		86,836		86,836		86,836		86,836		434,180
<b>Total Program Costs</b>	<b>40.0</b>	<b>2,181,009</b>	<b>200.0</b>	<b>10,905,045</b>								
<b>TOTAL EXISTING SYSTEM COSTS</b>	<b>49.0</b>	<b>2,968,617</b>	<b>49.0</b>	<b>3,018,617</b>	<b>49.0</b>	<b>3,018,617</b>	<b>49.0</b>	<b>3,018,617</b>	<b>49.0</b>	<b>3,018,617</b>	<b>245.0</b>	<b>15,043,085</b>

/1 Per Vendor Quote - Microsoft Maintenance Contract after Extended Support ends 2008

Department: Franchise Tax Board  
 Project: Withhold At Source System (06-02)  
 Date: 08/02/07

**PROPOSED ALTERNATIVE: More FTB Redirection & Less Consultants (15,080 Hours)**

All costs are shown in whole (unrounded) dollars.

FSR EAW

	FY 2007/08		FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		TOTAL	
	PYs	Amts	PYs	Amts								
<b>One-Time IT Project Costs</b>												
Staff (Salaries & Benefits)	1.2	101,770	6.4	544,101	25.3	1,956,623	1.8	132,432	0.0	0	34.7	2,734,926
Hardware Purchase		0		19,449		0		0		0		19,449
Software Purchase/License		0		96,122		0		0		0		96,122
Telecommunications		0		0		0		0		0		0
Contract Services												
Software Customization		0		382,950		1,433,790		0		0		1,816,740
Project Management		0		0		0		0		0		0
Project Oversight		0		0		0		0		0		0
IV&V Services & Project Oversight		0		105,935		105,935		26,484		0		238,354
Other Contract Services (DGS Analyst)		8,651		17,272		0		0		0		25,923
TOTAL Contract Services		8,651		506,157		1,539,725		26,484		0		2,081,017
Data Center Services		0		0		0		0		0		0
Agency Facilities		0		0		0		0		0		0
Staff OE&E		2,491		13,739		53,876		3,815		0		73,921
Other		0		0		0		0		0		0
<b>Total One-time IT Costs</b>	<b>1.2</b>	<b>112,912</b>	<b>6.4</b>	<b>1,179,568</b>	<b>25.3</b>	<b>3,550,224</b>	<b>1.8</b>	<b>162,731</b>	<b>0.0</b>	<b>0</b>	<b>34.7</b>	<b>5,005,435</b>
<b>Continuing IT Project Costs</b>												
Staff (Salaries & Benefits)	0.0	0	0.0	0	0.0	0	11.9	994,125	13.0	1,084,500	24.9	2,078,625
Hardware Lease/Maintenance		0		0		0		0		0		0
Software Maintenance/Licenses		0		31,914		31,914		31,914		31,914		127,656
Telecommunications		0		0		0		0		0		0
Contract Services		0		0		0		0		0		0
Data Center Services		0		0		0		0		0		0
Agency Facilities		0		0		0		0		0		0
Staff OE&E		0		0		0		25,829		28,177		54,006
Other		0		0		0		0		0		0
<b>Total Continuing IT Costs</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>31,914</b>	<b>0.0</b>	<b>31,914</b>	<b>11.9</b>	<b>1,051,868</b>	<b>13.0</b>	<b>1,144,591</b>	<b>24.9</b>	<b>2,260,287</b>
<b>Total Project Costs</b>	<b>1.2</b>	<b>112,912</b>	<b>6.4</b>	<b>1,211,482</b>	<b>25.3</b>	<b>3,582,138</b>	<b>13.7</b>	<b>1,214,599</b>	<b>13.0</b>	<b>1,144,591</b>	<b>59.6</b>	<b>7,265,722</b>
<b>Continuing Existing Costs</b>												
Information Technology Staff	9.0	768,051	7.0	592,419	7.3	620,594	0.6	51,716	0.0	0	23.9	2,032,780
Other IT Costs		19,557		15,157		15,863		1,604		0		52,181
<b>Total Continuing Existing IT Costs</b>	<b>9.0</b>	<b>787,608</b>	<b>7.0</b>	<b>607,576</b>	<b>7.3</b>	<b>636,457</b>	<b>0.6</b>	<b>53,320</b>	<b>0.0</b>	<b>0</b>	<b>23.9</b>	<b>2,084,961</b>
Program Staff	40.0	2,094,173	40.0	2,094,173	40.0	2,094,173	29.7	1,424,962	28.7	1,364,124	178.4	9,071,605
Other Program Costs		86,836		86,836		86,836		49,639		46,257		356,403
<b>Total Continuing Existing Program Costs</b>	<b>40.0</b>	<b>2,181,009</b>	<b>40.0</b>	<b>2,181,009</b>	<b>40.0</b>	<b>2,181,009</b>	<b>29.7</b>	<b>1,474,601</b>	<b>28.7</b>	<b>1,410,381</b>	<b>178.4</b>	<b>9,428,008</b>
<b>Total Continuing Existing Costs</b>	<b>49.0</b>	<b>2,968,617</b>	<b>47.0</b>	<b>2,788,585</b>	<b>47.3</b>	<b>2,817,466</b>	<b>30.3</b>	<b>1,527,921</b>	<b>28.7</b>	<b>1,410,381</b>	<b>202.3</b>	<b>11,512,969</b>
<b>TOTAL ALTERNATIVE COSTS</b>	<b>50.2</b>	<b>3,081,529</b>	<b>53.4</b>	<b>4,000,067</b>	<b>72.6</b>	<b>6,399,604</b>	<b>44.0</b>	<b>2,742,520</b>	<b>41.7</b>	<b>2,554,972</b>	<b>261.9</b>	<b>18,778,691</b>
INCREASED REVENUES*		0		0		0		1,550,000		2,050,000		3,600,000

\* Estimated Filing Enforcement (FE) Revenue from Additional Non-Filers Contacted using WSCS info - **\$6.6 Million over a 5-Year Period**. FY 10/11 - \$1.3 million, FY 11/12 - \$1.8 million, FY 12/13 - \$1.2 million, FY 13/14 - \$1.1 million, FY 14/15 and ongoing - \$1.2 million.

\* Based on delinquent real estate withholding forms (information returns) received in 2006, automating penalties expected revenue of approximately **\$250,000** in new penalty revenue on an annual basis

Department: Franchise Tax Board  
 Project: Withhold At Source System (06-02)  
 Date: 08/02/07

**ALTERNATIVE 1: Less FTB Redirection & More Consultants (25,080 Hours)**

All costs are shown in whole (unrounded) dollars.

FSR EAW

	FY 2007/08		FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		TOTAL	
	PYs	Amts	PYs	Amts								
<b>One-Time IT Project Costs</b>												
Staff (Salaries & Benefits)	1.2	101,770	6.4	544,101	19.5	1,495,226	1.8	132,432	0.0	0	28.9	2,273,529
Hardware Purchase		0		19,449		0		0		0		19,449
Software Purchase/License		0		96,122		0		0		0		96,122
Telecommunications		0		0		0		0		0		0
<b>Contract Services</b>												
Software Customization		0		382,950		2,333,790		0		0		2,716,740
Project Management		0		0		0		0		0		0
Project Oversight		0		0		0		0		0		0
IV&V Services & Project Oversight		0		115,404		115,404		28,851		0		259,659
Other Contract Services (DGS Analyst)		8,651		17,272		0		0		0		25,923
<b>TOTAL Contract Services</b>		8,651		515,626		2,449,194		28,851		0		3,002,322
Data Center Services		0		0		0		0		0		0
Agency Facilities		0		0		0		0		0		0
Staff OE&E		2,491		13,739		41,383		3,815		0		61,428
Other		0		0		0		0		0		0
<b>Total One-time IT Costs</b>	<b>1.2</b>	<b>112,912</b>	<b>6.4</b>	<b>1,189,037</b>	<b>19.5</b>	<b>3,985,803</b>	<b>1.8</b>	<b>165,098</b>	<b>0.0</b>	<b>0</b>	<b>28.9</b>	<b>5,452,850</b>
<b>Continuing IT Project Costs</b>												
Staff (Salaries & Benefits)	0.0	0	0.0	0	0.0	0	11.9	994,125	13.0	1,084,500	24.9	2,078,625
Hardware Lease/Maintenance		0		0		0		0		0		0
Software Maintenance/Licenses		0		31,914		31,914		31,914		31,914		127,656
Telecommunications		0		0		0		0		0		0
Contract Services		0		0		0		0		0		0
Data Center Services		0		0		0		0		0		0
Agency Facilities		0		0		0		0		0		0
Staff OE&E		0		0		0		25,829		28,177		54,006
Other		0		0		0		0		0		0
<b>Total Continuing IT Costs</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>31,914</b>	<b>0.0</b>	<b>31,914</b>	<b>11.9</b>	<b>1,051,868</b>	<b>13.0</b>	<b>1,144,591</b>	<b>24.9</b>	<b>2,260,287</b>
<b>Total Project Costs</b>	<b>1.2</b>	<b>112,912</b>	<b>6.4</b>	<b>1,220,951</b>	<b>19.5</b>	<b>4,017,717</b>	<b>13.7</b>	<b>1,216,966</b>	<b>13.0</b>	<b>1,144,591</b>	<b>53.8</b>	<b>7,713,137</b>
<b>Continuing Existing Costs</b>												
Information Technology Staff	9.0	768,051	7.0	592,419	7.3	620,594	0.6	51,716	0.0	0	23.9	2,032,780
Other IT Costs		19,557		15,157		15,863		1,604		0		52,181
<b>Total Continuing Existing IT Costs</b>	<b>9.0</b>	<b>787,608</b>	<b>7.0</b>	<b>607,576</b>	<b>7.3</b>	<b>636,457</b>	<b>0.6</b>	<b>53,320</b>	<b>0.0</b>	<b>0</b>	<b>23.9</b>	<b>2,084,961</b>
Program Staff	40.0	2,094,173	40.0	2,094,173	40.0	2,094,173	29.7	1,424,962	28.7	1,364,124	178.4	9,071,605
Other Program Costs		86,836		86,836		86,836		49,639		46,257		356,403
<b>Total Continuing Existing Program Costs</b>	<b>40.0</b>	<b>2,181,009</b>	<b>40.0</b>	<b>2,181,009</b>	<b>40.0</b>	<b>2,181,009</b>	<b>29.7</b>	<b>1,474,601</b>	<b>28.7</b>	<b>1,410,381</b>	<b>178.4</b>	<b>9,428,008</b>
<b>Total Continuing Existing Costs</b>	<b>49.0</b>	<b>2,968,617</b>	<b>47.0</b>	<b>2,788,585</b>	<b>47.3</b>	<b>2,817,466</b>	<b>30.3</b>	<b>1,527,921</b>	<b>28.7</b>	<b>1,410,381</b>	<b>202.3</b>	<b>11,512,969</b>
<b>TOTAL ALTERNATIVE COSTS</b>	<b>50.2</b>	<b>3,081,529</b>	<b>53.4</b>	<b>4,009,536</b>	<b>66.8</b>	<b>6,835,183</b>	<b>44.0</b>	<b>2,744,887</b>	<b>41.7</b>	<b>2,554,972</b>	<b>256.1</b>	<b>19,226,106</b>
INCREASED REVENUES*		0		0		0		1,550,000		2,050,000		3,600,000

\* Estimated Filing Enforcement (FE) Revenue from Additional Non-Filers Contacted using WSCS info - \$6.6 Million over a 5-Year Period. FY 10/11 - \$1.3 million, FY 11/12 - \$1.8 million, FY 12/13 - \$1.2 million, FY 13/14 - \$1.1 million, FY 14/15 and ongoing

\* Based on delinquent real estate withholding forms (information returns) received in 2006, automating penalties expected revenue of approximately \$250,000 in new penalty revenue on an annual basis



Department: Franchise Tax Board  
 Project: Withhold At Source System (06-02)  
 Date: 08/02/07

**ADJUSTMENTS, SAVINGS AND REVENUES WORKSHEET  
 (DOF Use Only)**

FSR EAW

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Annual Project Adjustments	FY 2007/08		FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		Net Adjustments	
	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts	PYs	Amts
<b>One-time Costs</b>												
Previous Year's Baseline	0.0	0	0.0	0	0.0	621,728	0.0	1,539,725	0.0	26,484		
(A) Annual Augmentation /(Reduction)	0.0	0	0.0	621,728	0.0	917,997	0.0	(1,513,241)	0.0	(26,484)		
(B) Total One-Time Budget Actions	0.0	0	0.0	621,728	0.0	1,539,725	0.0	26,484	0.0	0	0.0	2,187,980
<b>Continuing Costs</b>												
Previous Year's Baseline	0.0	0	0.0	0	0.0	31,914	0.0	31,914	0.0	31,914		
(C) Annual Augmentation /(Reduction)	0.0	0	0.0	31,914	0.0	0	0.0	0	0.0	0		
(D) Total Continuing Budget Actions	0.0	0	0.0	31,914	0.0	31,914	0.0	31,914	0.0	31,914	0.0	127,656
<b>Total Annual Project Budget Augmentation /(Reduction) [A + C]</b>	0.0	0	0.0	653,642	0.0	917,997	0.0	(1,513,241)	0.0	(26,484)		

[A, C] Excludes Redirected Resources

<b>0.0</b>	<b>2,315,636</b>
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**Annual Savings/Revenue Adjustments**

Cost Savings	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0		
Increased Program Revenues		0		0		0		1,550,000		2,050,000		

Department: Franchise Tax Board  
 Project: Withhold At Source System (06-02)  
 Date: 08/02/07

**ECONOMIC ANALYSIS SUMMARY**  
 All costs are shown in whole (unrounded) dollars.

FSR EAW

	FY 2007/08		FY 2008/09		FY 2009/10		FY 2010/11		FY 2011/12		TOTAL	
	PYs	Amts	PYs	Amts								
<b>EXISTING SYSTEM</b>												
Total IT Costs	9.0	787,608	9.0	837,608	9.0	837,608	9.0	837,608	9.0	837,608	45.0	4,138,040
Total Program Costs	40.0	2,181,009	40.0	2,181,009	40.0	2,181,009	40.0	2,181,009	40.0	2,181,009	200.0	10,905,045
<b>Total Existing System Costs</b>	<b>49.0</b>	<b>2,968,617</b>	<b>49.0</b>	<b>3,018,617</b>	<b>49.0</b>	<b>3,018,617</b>	<b>49.0</b>	<b>3,018,617</b>	<b>49.0</b>	<b>3,018,617</b>	<b>245.0</b>	<b>15,043,085</b>

<b>PROPOSED ALTERNATIVE</b>	<b>NATIVE: More FTB Redirection &amp; Less Consults</b>											
Total Project Costs	1.2	112,912	6.4	1,211,482	25.3	3,582,138	13.7	1,214,599	13.0	1,144,591	59.6	7,265,722
Total Cont. Exist. Costs	49.0	2,968,617	47.0	2,788,585	47.3	2,817,466	30.3	1,527,921	28.7	1,410,381	202.3	11,512,969
<b>Total Alternative Costs</b>	<b>50.2</b>	<b>3,081,529</b>	<b>53.4</b>	<b>4,000,067</b>	<b>72.6</b>	<b>6,399,604</b>	<b>44.0</b>	<b>2,742,520</b>	<b>41.7</b>	<b>2,554,972</b>	<b>261.9</b>	<b>18,778,691</b>
<b>COST SAVINGS/AVOIDANCES</b>	<b>(1.2)</b>	<b>(112,912)</b>	<b>(4.4)</b>	<b>(981,450)</b>	<b>(23.6)</b>	<b>(3,380,987)</b>	<b>5.0</b>	<b>276,097</b>	<b>7.3</b>	<b>463,645</b>	<b>(16.9)</b>	<b>(3,735,606)</b>
Increased Revenues		0		0		0		1,550,000		2,050,000		3,600,000
Net (Cost) or Benefit	(1.2)	(112,912)	(4.4)	(981,450)	(23.6)	(3,380,987)	5.0	1,826,097	7.3	2,513,645	(16.9)	(135,606)
<b>Cum. Net (Cost) or Benefit</b>	<b>(1.2)</b>	<b>(112,912)</b>	<b>(5.6)</b>	<b>(1,094,361)</b>	<b>(29.2)</b>	<b>(4,475,348)</b>	<b>(24.2)</b>	<b>(2,649,251)</b>	<b>(16.9)</b>	<b>(135,606)</b>		

<b>PROPOSED ALTERNATIVE</b>	<b>1: Less FTB Redirection &amp; More Consultants</b>											
Total Project Costs	1.2	112,912	6.4	1,220,951	19.5	4,017,717	13.7	1,216,966	13.0	1,144,591	53.8	7,713,137
Total Cont. Exist. Costs	49.0	2,968,617	47.0	2,788,585	47.3	2,817,466	30.3	1,527,921	28.7	1,410,381	202.3	11,512,969
<b>Total Alternative Costs</b>	<b>50.2</b>	<b>3,081,529</b>	<b>53.4</b>	<b>4,009,536</b>	<b>66.8</b>	<b>6,835,183</b>	<b>44.0</b>	<b>2,744,887</b>	<b>41.7</b>	<b>2,554,972</b>	<b>256.1</b>	<b>19,226,106</b>
<b>COST SAVINGS/AVOIDANCES</b>	<b>(1.2)</b>	<b>(112,912)</b>	<b>(4.4)</b>	<b>(990,919)</b>	<b>(17.8)</b>	<b>(3,816,566)</b>	<b>5.0</b>	<b>273,730</b>	<b>7.3</b>	<b>463,645</b>	<b>(11.1)</b>	<b>(4,183,021)</b>
Increased Revenues		0		0		0		1,550,000		2,050,000		0
Net (Cost) or Benefit	(1.2)	(112,912)	(4.4)	(990,919)	(17.8)	(3,816,566)	5.0	1,823,730	7.3	2,513,645	(11.1)	(4,183,021)
<b>Cum. Net (Cost) or Benefit</b>	<b>(1.2)</b>	<b>(112,912)</b>	<b>(5.6)</b>	<b>(1,103,830)</b>	<b>(23.4)</b>	<b>(4,920,396)</b>	<b>(18.4)</b>	<b>(3,096,666)</b>	<b>(11.1)</b>	<b>(583,021)</b>		