FINAL

Agency: 124 Department of Retirement Systems

Decision Package Code/Title: N0 Upgrade Employer Reporting System

Budget Period: 2015-17

Budget Level: PL - Performance Level

Recommendation Summary Text:

DRS' Employer Information System (EIS) is responsible for processing retirement data for 291,000 active members from over 1,300 employers who participate in the state's 16 pension plans, and Deferred Compensation Program. EIS collects and processes more than one million transactions each month containing the critical core data that is used to calculate and distribute benefits. Constraints inherent to EIS' original 1992 architecture have made it costly to maintain and adapt to increasingly complex business requirements. It also lacks flexibility to respond to certain changes contemplated by policymakers (e.g., capture additional pay and job types). Funding is requested to upgrade EIS.

Fiscal Detail

Operating Expenditures		FY 2016	FY 2017	Total
600-1	Dept of Retirement Systems Expense-State	2,618,000	1,887,000	4,505,000
888-6	Deferred Compensation Admin Account-Non-Appropriated	197,000	142,000	339,000
Total Cost		**2,815,000**	**2,029,000**	**4,844,000**

Staffing	FY 2016	FY 2017	Annual Average
FTEs	1.3	2.0	1.7

Package Description:

EIS is 22 years old and is used by over 1,300 public employers from across the state. Data from the system is used to calculate and distribute over $3 billion in retirement benefits, $2.7 billion in Washington State, to support 156,000 annuitants. DRS recognizes the importance of this system to the Washington State economy. EIS' original system design and underlying architecture cannot keep pace with increasingly complex business requirements crucial to the administration of the state's public pension system. In order to meet the needs of customers, partners and policymakers, improve system reliability, reduce ongoing cost and address resource constraints, funding is requested to:

- procure and install a Business Process Management Suite (BPMS) development platform and
- use it to begin rebuilding critical applications, beginning with EIS.

In the 2013-2015 session, the Legislature authorized spending to replace EIS. DRS developed and issued a RFP. After evaluating BPMS vendor proposals, DRS determined vendors could not meet core requirements within the original budget and schedule. This conclusion was reinforced by communications from other vendors who said they did not respond to the RFP because neither the budget nor the schedule were adequate. After consulting with legal counsel, DRS canceled the procurement and froze project spending. Immediately following the cancelation, DRS identified lessons learned and conducted follow-up vendor research and outreach to peer pension organizations. Because modernization is DRS' highest strategic priority, and attracting quality vendors is key to project success, DRS comprehensively evaluated assumptions, budget and schedule in light of this research. This proposal for 2015-17 reflects these changes.

Core factors underline EIS' inflexibility:

- Many employers have no way to pre-validate the data they send. When errors are encountered by DRS, the data is returned to the employer resulting in costly delays and errors in customer-facing processes like benefit calculations.
- DRS Team members must intervene to coordinate data corrections. In some situations, it requires multiple attempts to make sure DRS receives accurate data.

- EIS provides employers no insight into the complex business rules that govern reporting. DRS Team members invest substantial energy in employer education.

The key elements of the proposed upgrade include:

- Using Agile and Lean principles to provide value to our customers early and incrementally throughout the project.
- Designing system components to support modern business models which accurately and efficiently process employer data, while providing a highly adaptable architectural foundation.
- Leveraging Lean to streamline business processes. Including using Business Process Analysis (BPA) and Business Process Management (BPM) models to document and automate the improved processes.
- Modernizing the system architecture using proven design methodologies so routine maintenance and future statutory enhancements can be accomplished efficiently, with minimal risk of disruption.
- Develop a data architecture and a plan for data migration in preparation for modernization.
- Lay the groundwork to expand customer-facing online services including member Plan Choice and DCP Enrollment.
- Provide tools for employers which:
  - Focus on usability, including a modern real-time dashboard.
  - Edit and validate employment data prior to submission. This will increase the accuracy of information provided to DRS, reduce the time required to process employer data and reduce staff intervention necessary to coordinate corrections.
  - Provide retirement data in full historical context, which will reduce errors and expedite the corrections process.
  - Enable employers to use enhanced on-demand tools for self-auditing.
  - Deliver simple, secure reporting of employment information to DRS using consistent protocols.

Modernizing the employer reporting system will improve DRS' ability to support policymakers. Public pensions are a frequent topic in the Legislature and DRS experiences statutory changes often. These annual changes result in complex business rule enhancements. The current system's rigid architecture does not provide the flexibility to make these enhancements easily. As complexity mounts, so does the increased risk of system failure and the risk DRS will be unable to meet legislated mandates in a timely manner. EIS also lacks flexibility to respond to data requests contemplated by policymakers (for example it is not capable of capturing new data elements like additional pay types and job types). Modernization will give DRS flexibility to change systems quickly to respond to new policy requests.

Questions on this proposal should be directed to Chris Lamb, Assistant Director, Information Services Division, at (360) 664-7282.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

An upgrade of DRS' employer reporting system will:

- Increase accuracy of customer data
- Increase timeliness of retirement data and contributions
- Increase system adaptability
- Enhance system functionality
- Reduce required resources during maintenance cycles
- Reduce risk of system failure
- Increase transaction capacity and response time for employer web-based reporting
- Streamline the employer reporting process, reducing time and cost to complete transaction processing

The project will positively impact one of DRS' published performance measures:

1. Increase the percent of benefit estimates within +/- 3% of the actual benefit. Providing public employers the ability to interactively view their employees' retirement data in full historical context will improve both the accuracy and integrity of member employment and earnings details. Complete, timely, and accurate employee earnings data avoids the delay caused by correction reporting and translates into complete, timely, and most important for this measure, accurate retirement estimates and benefits.

In addition two agency quarterly targets will also improve:

2. Decrease the percent of employer corrections to 1%, six months after full employer rollout. By providing public employers the ability to validate their data prior to submission, employer errors will be reduced and the collection of contributions will be

timelier. There is a direct correlation between employer reporting and customer experience. Fast and accurate employer reporting leads to better data, and better data allows us to improve and streamline numerous downstream, customer-facing processes. DRS expects to reduce the number of employer corrections to less than 1% of regular employer transactions.

3. Increase employer satisfaction with DRS tools and resources to over 80%, after project closeout. DRS interviews employers each month to assess their satisfaction in key areas. Employer satisfaction with DRS tools and resources consistently ranks below 80%. DRS' goal is to streamline the employer reporting process, increase employer satisfaction with a new portal, and maintain their satisfaction at or above 80% in the quarters that follow project closeout.

Performance Measure Detail

(No measures submitted for package via RPM. Please see the discussion on performance outcomes above.)

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Modernization of our legacy systems is DRS' highest strategic priority. DRS uses a Fundamentals Map for strategic planning, and modernization is a Breakthrough Strategy in that process. A new employer reporting system is also the first step of DRS' Modernization Strategy. Additionally, because employer reporting is the primary means of gathering information for downstream pension processes, it supports all four of DRS' organizational values: customer focus, valued relationships, performance excellence and resource stewardship.

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

Cost effective upgrades to critical business systems contribute to the priority of Goal 5: Effective, efficient and accountable government. DRS will specifically support improved performance in the following outcome measures:

Customer Satisfaction and Confidence - "I'm being served well"
1.1 Increase customer satisfaction with accuracy, timeliness and respectfulness
1.1.a. Increase number of services available online; increase online services for mobile devices
1.1.b. Increase number of core services where customers are surveyed at point of service/delivery

- DRS' Modernization Strategy relies on a BPMS to rebuild EIS. One of the requirements of this new development platform is the ability to develop online services for mobile devices.
- A modernized employer reporting system will provide improved accuracy and timeliness of customer data.
- Modernization lays the groundwork to expand customer-facing online services to include member Plan Choice and DCP Enrollment.
- The new system will also provide a functionality for end-users to provide feedback on services.

Resource Stewardship - "My money is used responsibly"
2. Cost-effective government

- DRS will apply Agile and Lean principles to modernization to streamline processes and create early value.
- Modernizing reduces risk, improves customer services, and positions DRS for the future.

Transparency and Accountability - "I know how my money is being spent"
3.1 Increase amount of data available in downloadable and searchable format

- A primary objective in DRS' Modernization Strategy is Transparency: Promoting accountability and providing understandable and accessible pension information for customers, partners and team members.
- The new system will allow end-users to search and review their retirement data in full historical context, which will reduce errors and expedite corrections, while simultaneously improving transparency and accountability.

What are the other important connections or impacts related to this proposal?

A modernized employer reporting system supports more than public employers.

State and federal organizations also rely on DRS' data. Modernization will enhance DRS' responsiveness, accuracy and adaptability to the needs of:

- Department of Enterprise Services (DES),
- Department of Labor & Industries (L&I),

- Health Care Authority (HCA),
- Internal Revenue Service (IRS),
- Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board (LEOFF Plan 2 Board),
- Office of Financial Management (OFM),
- Office of the State Actuary (OSA),
- Office of the State Treasurer (OST),
- Select Committee on Pension Policy (SCPP), and
- Washington State Investment Board (WSIB).

This data is also an integral component to the daily interactions between DRS and the third-party record keepers who manage contributions for Plan 3 members of the Teachers', School Employees' and Public Employees' Retirement Systems, as well as deferrals for participants in the Deferred Compensation Program (DCP).

What alternatives were explored by the agency, and why was this alternative chosen?

DRS considered the following three alternatives:

1. Preferred Option: Modernize with a BPMS platform, and replace EIS.

DRS has completed substantial analysis, including an RFI in January 2013 which:
- identified potential BPMS vendors,
- verified that BPMS will meet identified requirements, and
- established BPMS as a cost-effective solution.

DRS used the RFI information to develop an RFP in 2013. The agency also leveraged information from well-known research organizations such as Gartner. Although DRS eventually canceled the procurement (as described in the Package Description) the agency was able to gather substantial market and cost information during that process. The RFP experience solidified DRS confidence in this technical solution. Since the end of that procurement, DRS has identified lessons learned from the procurement and conducted additional research. DRS also conducted substantial research on hosting and licensing options (cloud), alternate procurement options (including the OCIO Innovation Exemption) and BPMS outreach. The BPMS outreach included a number of conversations with public retirement peer organizations The RFI, RFP, research and peer outreach has solidified that a BPMS is the most feasible technical solution for agency needs.

2. Add technical resources to support the increasing demand for maintaining EIS.

The current system is based on technology that is 22 years old. Finding additional resources to support this technology is difficult. Even if resources were available, additional funding and/or FTEs would still be required to support this option. Also, this alternative does not address the current adaptability and functionality issues the agency is facing. With each passing year the growing complexity increases resource needs.

3. Replace the existing system with a "commercial-off-the-shelf" (COTS) software package.

EIS is highly customized to collect and process data to provide service for the eight different public retirement systems in Washington

State that have 16 different retirement plans. Legislation and rules that surround the system are highly unique and do not fit the model of a typical single-system retirement benefits package. Agency research has shown that there are no viable, cost-effective options in COTS software that could be adapted to support the DRS' business model and adequately serve its members and employers. External benchmarking reached the same conclusion, identifying that most large public pension administrators are not pursuing COTS. After consultation with peer groups DRS found that those who are modernizing with COTS are spending $40-$50 million, and a substantial portion of that is for system customization.

What are the consequences of adopting or not adopting this package?

Delay will result in a continuation of increasing cost and risk of failure when future business processes must be adapted into EIS. Such failure would impact most all facets of agency business, including significant impacts to providing benefits to members.

Delay could also postpone future pension policy changes. Although EIS can still be modified for minor changes to the state's pension plans, other proposals from recent legislative sessions have been identified as not prossible in the existing system.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

Estimates for the proposed solution are based on substantial research and lessons learned from the first procurement. There may be a different cost breakdown if further analysis and/or other solution offerings become available.

New DRS team member costs to support the project (e.g., perform user acceptance testing on the new employer reporting system [including how it interacts with the agency's other systems], transition employers to the new system, etc.) are also included in the tables at the end of this package.

Based on current projections, no additional administrative fee increase is needed. The current fee of 0.18% should provide sufficient revenue.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

This project spans two biennia. 2015-17 and 2017-2019 biennial costs are one-time project costs. It is anticipated that there will be an ongoing annual license/maintenance fee for the new software. It is also projected that the new fee will be offset by reduced costs to maintain and operate a more efficient employer reporting system.

Object Detail		FY 2016	FY 2017	Total
A	Salaries And Wages	102,824	150,255	253,079
B	Employee Benefits	34,348	50,796	85,144
C	Professional Svc Contracts	2,219,678	1,339,934	3,559,612
E	Goods\Other Services	458,150	488,015	946,165
Total Objects		**2,815,000**	**2,029,000**	**4,844,000**

Description	2015-17	2017-19	2019-21
Salaries*	253,079	467,927	
Benefits*	85,144	165,300	
Special AG/Assistant AG	150,000		
External Quality Assurance	60,400	60,400	
BPMS	1,500,000		
Integrator (Professional Services)	1,799,212	2,832,828	
Other Prof Svcs (e.g., data analysis/cleaning/modeling)	200,000	200,000	
Contract Programmers	256,215	272,745	
Maintenance License (BPMS & Other)		722,000	744,000
Other Software (e.g., data and software management)	300,000		
Mainframe	92,950	85,800	
Equipment Lease	147,000	252,000	252,000
Totals	**4,844,000**	**5,059,000**	**996,000**

*Additional Project Positions	2015-17	2017-19	2019-21
Project Coordinator (Jul-15 thru Feb-19)	209,999	175,309	
Technical Writer (Mar-16 thru Jun-18)	128,224	96,168	
Change Management (Jul-17 thru Jun-18)		82,536	
Training Lead (Oct-17 thru Oct-18)		104,182	
Two Trainers (Oct-17 thru Oct-18)		175,032	

FINAL

Agency: 124 Department of Retirement Systems

Decision Package Code/Title: **N1 Audits to Comply with GASB**

Budget Period: **2015-17**
Budget Level: **PL - Performance Level**

Recommendation Summary Text:

Member data needs to be audited at employer locations in order for the financial statements prepared by DRS and other public employers to comply with standards issued by the Governmental Accounting Standards Board (GASB) and audit recommendations from the American Institute of Certified Public Accountants (AICPA). GASB statements 67 and 68 will require employers participating in the state's retirement systems to recognize their proportionate share of the net pension liability. This decision package increases DRS' appropriation authority to cover the cost of the new audit requirements.

Fiscal Detail

Operating Expenditures	FY 2016	FY 2017	Total
600-1 Dept of Retirement Systems Expense-State	260,000	275,000	535,000
Total Cost	**260,000**	**275,000**	**535,000**

Package Description:

In June 2012, GASB issued two new standards (numbers 67 and 68). Once implemented, employers participating in the retirement systems will be required to recognize their proportionate share of the net pension liability in their financial statements. Currently, employers have no such requirement and only show an expense for contributions made during the year and a liability for amounts currently due but not yet paid.

Auditing of census data could impact all 1,300 of the public employers who have members in the state's public retirement plans. Census data for over 680,000 members and retirees includes such information as birth date, years of service, compensation and gender. This key information is used by the State Actuary in determining the funding status of the plans.

Additionally, the AICPA has determined that auditors of our employers preparing financial statements that comply with Generally Accepted Accounting Principles (GAAP) would probably be unable to provide clean audit opinions if the employer's portion of the pension systems net pension liability was material and the pension plan did not have an audit on their allocation schedule.

Questions on this proposal should be directed to Cathy Cale, Fiscal Manager, at (360) 664-7305.

Narrative Justification and Impact Statement

What specific performance outcomes does the agency expect?

The additional audits do not impact the agency's performance measures.

Performance Measure Detail

(No measures submitted for package via RPM. Please see the discussion on performance outcomes above.)

Is this decision package essential to implement a strategy identified in the agency's strategic plan?

Although it does not directly contribute to a current strategy, it does support the agency's key goal to be a "Reliable Partner."

Does this DP provide essential support to one or more of the Governor's Results Washington priorities?

The DP would be related to Goal 5 as it supports transparency and accountability in the financial status of the state's public pension plans.

What are the other important connections or impacts related to this proposal?

The primary benefit is that it enables public employers, participating in the state's retirement systems, to recognize their proportionate share of the net pension liability in their own financial statements (a new financial reporting requirement).

What alternatives were explored by the agency, and why was this alternative chosen?

DRS considered the following alternatives:

1. **Enter into a contract with the current CAFR auditor to provide an opinion on the allocation schedules and coordinate with the State Auditor's Office on audits of employer census data.**

   This alternative was chosen as the CAFR auditor already understands the internal controls around DRS' collection of member data from employers as well as an understanding of the authoritative criteria for creating and auditing liability allocation schedules. Timing to coordinate the census audits and allocation opinion is tight and entering a full RFP process could jeopardize the ability to have plan information available to employers when they need it.

2. **Enter into an agreement with the State Auditor's Office (SAO) to provide an opinion on the state allocation schedules and to audit the employer census data.**

   While SAO has initially been agreeable to participate in census audits, they were hesitant to take on a larger role in the process at this time. They were unsure of the availability of staffing resources and felt they might need to redo work already performed by the CAFR auditor to reach the comfort level necessary to issue an opinion. We will revisit this option with SAO in the future.

3. **Enter into a contract with the current CAFR auditor to provide the allocation schedule opinion and perform all census data audits.**

   Engaging the CAFR auditor to perform all census audits may not only be more expensive, due to the necessity to travel all around the state, but also could create conflict with the retirement systems' employers. All of DRS' employers are already subject to audits by SAO and are comfortable with those auditors, already strategically placed around the state, and would have lesser concerns about sharing confidential payroll and personnel information with SAO.

What are the consequences of adopting or <u>not adopting</u> this package?

"Doing nothing" essentially represented another alternative but in addition to providing poor support to public employers it could negatively impact CAFR opinions in future years, for DRS and public employers statewide, as their financial reports would be out of compliance with published standards. The integrity and accuracy of these financial reports is an important component of transparency in government.

What is the relationship, if any, to the state's capital budget?

None.

What changes would be required to existing statutes, rules, or contracts, in order to implement the change?

None.

Expenditure and revenue calculations and assumptions

Our current CAFR auditors are estimating that 79 employers would need to be audited per year at an initial cost of $260,000 if they did all the work required to perform an audit on the allocation schedule. The State Auditor's Office has indicated their willingness to perform census data audits at the employer locations at a cost of $89 per hour, plus travel expenses. DRS will pursue the most cost-effective solution, factoring in vendor bids and information from the SAO.

Based on current projections, no additional administrative fee increase is needed. The current fee of 0.18% should provide sufficient revenue.

Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?

Object Detail		**FY 2016**	**FY 2017**	**Total**
C	Professional Svc Contracts	260,000	275,000	535,000
Total Objects		**260,000**	**275,000**	**535,000**