

Honolulu, Hawaii

FEB 04 2011

RE: Department of  
Taxation Contracts  
with CGI Technologies  
and Solutions, Inc.

Honorable Shan S. Tsutsui  
President of the Senate  
Twenty-Sixth State Legislature  
Regular Session of 2011  
State of Hawaii

Sir:

Your Committee on Ways and Means begs leave to report as follows:

The purpose of this report is to set forth the findings of your Committee with respect to concerns regarding the operation, mismanagement, and fiscal irresponsibility of the Department of Taxation (DOTAX) in its contracts with CGI Technologies and Solutions, Inc. (CGI), and CGI's predecessor American Management Systems, Inc., to create and implement an Integrated Tax Information Management System (ITIMS) to assist DOTAX with administering and collecting State tax revenues.

**Report of the Senate Ways and Means Committee on Informational Briefings Concerning the Inadequacy of Management and Fiscal Irresponsibility at DOTAX in Operating Its Contracts with CGI**

**I. INTRODUCTION**

During the first half of 2010, the Senate Ways and Means Committee held two informational briefings and a hearing on the ITIMS contracts that DOTAX executed with CGI and its predecessor American Management Systems, Inc. The informational briefings and the hearing were aimed at addressing various concerns of the Legislature that relate to the overall failure of management and senior personnel at DOTAX to manage the CGI contracts in a professional and fiscally responsible manner.



Specifically, since the inception of ITIMS in 1999 the State has paid CGI over \$87,500,000 to create, enhance, improve, and upgrade ITIMS. The amount paid includes a Statement of Work 1 (SOW 1) sole source contract that is scheduled to run from 2008 to 2011. SOW 1 was executed for a cost of \$25,000,000 and enables DOTAX to collect delinquent taxes, integrate all tax revenues into one electronic system, and train DOTAX staff on how to operate ITIMS. However, in 2009 DOTAX modified the SOW 1 contract with CGI by executing a Statement of Work 2 (SOW 2) contract which modified the SOW 1 contract and also reduced the duties, requirements, and initiatives that CGI was obligated to deliver to the State under the SOW 1 contract. Unfortunately for the State of Hawaii, DOTAX failed to also negotiate a corresponding reduction in the \$25,000,000 SOW 1 contract price.

Furthermore, there have been numerous reports regarding poor cooperation between DOTAX and CGI in carrying out day-to-day operations. There also have been several incidents and remarks made that demonstrate a widespread lack of respect and professionalism between DOTAX staff and its management and the CGI consultants. Such tension existing between DOTAX employees and CGI consultants in the workplace has led to extensive operational inefficiencies and incompetence in implementing, delivering, and maintaining ITIMS; consequently, the usefulness of ITIMS for DOTAX has been compromised.

Based on an analysis and detailed review of the information, documents, and testimony received by your Committee in the informational briefings and hearing, your Committee Chair concludes that monetary appropriations given to DOTAX for ITIMS have not been wisely utilized by DOTAX. Furthermore, the management and senior personnel at DOTAX may not be properly suited to carrying out certain tax collection projects for the State.

## II. BACKGROUND

At the time DOTAX executed the SOW 1 contract for \$25,000,000 with CGI in 2008, ITIMS was already technologically outdated and the system had regular reoccurring problems with its maintenance and longevity.

Following the original ITIMS contract executed in 1999, DOTAX was not obligated or required to contract with CGI on any of the subsequent contracts to enhance or modify ITIMS. However,



including SOW 1 and SOW 2, DOTAX agreed to five additional contracts with CGI to improve or modify ITIMS. Those five subsequent contracts totaled over \$34,500,000. CGI was awarded the subsequent contract work for ITIMS because DOTAX failed to submit any of the proposed work out to bid. Submitting the work out to open competitive bidding would have likely allowed the State to receive a much more competitive price for the contracted work.

Aside from the overpriced contracts with CGI to improve or maintain ITIMS, the SOW 1 and SOW 2 contracts between CGI and DOTAX have resulted in CGI receiving additional revenue collections that were not anticipated due to DOTAX including a vague definition for the term "delinquent taxes."

Under the SOW 1 and SOW 2 contracts CGI was only required to provide 10 consultants to DOTAX for project oversight and guidance in implementing ITIMS. The staff of DOTAX was required to do the bulk of the legwork to administer, operate, and manage ITIMS.

The agreement reached by DOTAX and CGI under SOW 2 has reportedly led to much internal dissatisfaction and low employee morale at DOTAX. Your Committee has learned that the SOW 2 contract does not require CGI to complete agreed upon initiatives for DOTAX. This inability of DOTAX to provide feedback or input on substantive matters concerning ITIMS increases the likelihood that the ongoing delinquent tax collection project will not be optimal. The influence that CGI has on the day-to-day operations at DOTAX and its control over ITIMS has led to DOTAX management questioning their own staff's competence and left DOTAX employees fearful of the CGI consultants and senior personnel at DOTAX.

### **III. FINDINGS OF THE SENATE WAYS AND MEANS COMMITTEE**

#### **Mismanagement and Operational Inefficiencies at DOTAX**

##### **A. Viability of ITIMS**

Your Committee Chair finds that senior personnel and management at DOTAX repeatedly ignored the warning signs that ITIMS was an outdated system even though it had regularly reoccurring problems with its operation or maintenance. The failure of DOTAX senior personnel and management to conclude that ITIMS was no longer a viable or financially feasible option for the State as recent as 2005 has resulted in the State paying CGI



over \$34,500,000 under the SOW 1 and SOW 2 contracts, thus augmenting the problems experienced with ITIMS.

Robert Su, the Information Technology Chief at DOTAX, testified that ITIMS was built in 1999 with technology considered completely obsolete today. He stated that the system has "crashed" continuously from 2002 until May of 2009 when CGI was finally able to fix its operating problems. However, with DOTAX recently starting new tax collection and revenue projects, ITIMS has developed new problems with its operations and maintenance. Mr. Su further stated that an improved tax collection and revenue system incorporating the use of easy web-based applications can be built with current technology.

#### **B. Delinquent Tax Collections**

Collecting delinquent taxes through ITIMS is the primary responsibility of DOTAX. However, under SOW 1 and SOW 2 contract modifications, CGI is required to receive one-third of all delinquent taxes collected and attributed to CGI's software program, which includes all future delinquent tax collections through the contract end date in 2011.

Your Committee has received numerous complaints from taxpayers who have received an erroneous delinquent tax collection letter from DOTAX. Your Committee Chair has confirmed that many of these letters are indeed erroneous: they are the result of the generation of certain names and identification numbers of taxpayers that were identified as non-filers under an inefficient and inaccurate software program created by CGI. Stan Shiraki, Acting Director of DOTAX, stated that DOTAX has taken action to resolve issues relating to the erroneous delinquent tax letters without receiving any assistance from CGI, even though the erroneous letters were generated by CGI. There have been over 69,000 total delinquent tax collection letters mailed to taxpayers for which CGI has neglected to provide customer service support to DOTAX in answering the questions or concerns of the misidentified taxpayers.

As far as delinquent tax collections are concerned, your Committee Chair believes that CGI is unfairly benefitting from the delinquent tax collection revenues under the SOW 1 and SOW 2 contracts because CGI is receiving one-third of the delinquent tax revenues received by DOTAX but CGI is not expending any time or resources in pursuing those delinquent taxes. In other words,



your Committee Chair believes that CGI is unfairly profiting at the expense of the State's financial and human resources.

### C. Contract Modifications

The Senior Personnel at DOTAX agreed to a sole source contract in 2008, known as SOW 1, and agreed to modify SOW 1 in 2009 with SOW 2. SOW 2 resulted in one-sided benefits to CGI by reducing the number of initiatives that CGI would be required to deliver to DOTAX under SOW 1. Furthermore, even though CGI's obligations under SOW 2 were reduced, DOTAX did not receive a corresponding reduction in the contract price.

Specifically, the language in SOW 2 made it explicit that all CGI obligations under the original ITIMS contract "shall be deemed complete" on June 30, 2011. Robert Su expressed concern that such a clause in SOW 2 will allow CGI to walk away from the ITIMS initiative on June 30, 2011, without first completing all the necessary requirements to make the delinquent tax collection project reliable and feasible going forward.

Furthermore, the Attorney General wrote an opinion letter to Sandy Yahiro at DOTAX which states that SOW 2, just like SOW 1, omits several general provisions and adjustments that are usually included in all state contracts. Stan Shiraki added that someone at DOTAX made a unilateral business decision to specifically incorporate and execute SOW 1 and SOW 2 as they currently stand.

### D. CGI Interference with Daily Operations of DOTAX

Your Committee has received numerous reports from DOTAX staff that the management and senior personnel at DOTAX allowed the CGI consultants to interfere with the daily operations at DOTAX. Specifically, the interference stemmed from the CGI consultants constantly undermining the efforts of DOTAX staff to operate ITIMS. The CGI consultants also appeared to show a general lack of respect and professionalism for DOTAX staff's competence.

Furthermore, CGI also showed a lack of respect and professionalism for DOTAX leadership, in particular DOTAX's then Director, Kurt Kawafuchi. A former CGI Manager specifically pinpointed Kawafuchi as the problem why DOTAX is not taking in new tax revenues under the delinquent tax collection project. The former CGI Manager deliberately tried to take Kawafuchi out of the picture and instead empower Sandy Yahiro as the Project Director.



In regards to the execution of the SOW 2 contract, it appears that the former CGI Manager was successful in that endeavor because it was Sandy Yahiro who signed SOW 2, not Kawafuchi, and the contract modification was signed without consulting any staff members at DOTAX. Robert Su stated, "We were not involved and did not even see the contract [SOW 2] until it was signed."

In addition, the former CGI Manager made several derogatory statements not only about Kurt Kawafuchi, but also about other members of DOTAX's staff. In regard to Kawafuchi, the former CGI Manager made the comment that "Kurt is incapable of managing the situation." Comments the former CGI Manager made in regard to the staff of DOTAX included the following: "clinically psychotic," "experiencing marital problems," and "very strange man."

Your Committee has learned that the former CGI Manager was never located on or working at the project site, which suggests to your Committee Chair that one or more of the CGI consultants at the project site was relaying the above impressions of Kawafuchi and DOTAX staff to the former CGI Manager.

**E. Support of DOTAX Staff**

A representative from the Hawaii Government Employees Association testified to your Committee that DOTAX employees are fearful that the CGI consultants and DOTAX management will reprimand or retaliate against any DOTAX employee who questions the feasibility of the ITIMS project or reasonableness of the CGI contracts. In fact, it was reported to your Committee that Acting Director Shiraki publicly reprimanded a bargaining unit 13 member at DOTAX by calling the member's level of competency into question. A complaint by the member against Mr. Shiraki is currently going through the proper legal channels. In addition, Robert Su added that DOTAX management does not have sufficient trust in the abilities of the DOTAX staff, which has resulted in low employee morale at DOTAX and DOTAX employees leaving the department.

Robert Su further testified that he believes that if the business analysts on the delinquent tax collection project came up with the proper requirements for the project, then the DOTAX staff could have successfully managed and operated the delinquent tax collection project for which DOTAX is paying CGI \$25,000,000.



## Fiscal Irresponsibility at DOTAX

### A. Failure to Request Contract Proposals from Other Vendors

After DOTAX executed the original ITIMS contract in 1999, DOTAX and CGI engaged in four subsequent contracts. The four contracts were subject to the procurement laws of the State of Hawaii but were not adhered to because DOTAX did not put the work to be performed under the contract modifications out to public bid.

The executed contracts between DOTAX and CGI since 2005, including SOW 1 and SOW 2, which DOTAX failed to put out to public competitive bidding, totaled over \$34,500,000. Your Committee Chair understands that the State Auditor is examining the SOW 1 and SOW 2 contract modifications to determine if there were any improprieties or violations with any laws governing state contracts.

### B. Ambiguous Definition of "Delinquent Taxes"

Under SOW 1 and SOW 2, DOTAX failed to clearly define the term "delinquent taxes" for purposes of the delinquent tax collection project contracted for by DOTAX and CGI. DOTAX allocated \$25,000,000 toward the delinquent tax collection project, but that amount was based on a vague definition of what is considered "delinquent taxes."

Acting Director Shiraki testified to your Committee that DOTAX currently does not have the manpower to check for non-filers, i.e., taxpayers who owe the State tax revenues but who do not file a tax return. In other words, there is currently no record or process in place in the state tax system to identify a non-filer. Thus, DOTAX contracted with CGI to develop a software program that would identify non-filers for DOTAX.

Acting Director Shiraki interprets the term "delinquent taxes" to only apply to taxpayers who did not file a tax return, and the term "non-filer" to apply to those taxpayers who have previously filed a tax return with the State but have subsequently stopped filing a return for amounts owed to the State sometime thereafter. Mr. Shiraki also believes that the DOTAX delinquent tax collectors would collect delinquent taxes in a situation where a tax return was filed, but the taxpayer either did not pay their



taxes when filing the return, paid an incorrect amount of taxes, or happened to complete the tax return incorrectly.

However, according to Shiraki, if a taxpayer filed and put a number on a wrong line, then that taxpayer would be considered a filer. Thus, under the SOW 1 and SOW 2 contract modifications, CGI is getting compensation credit for taxpayers who file their tax return incorrectly and for delinquent taxes owed by people who are identified as non-filers. Such an interpretation of "delinquent taxes" has led to a revenue bonus for CGI under the SOW 1 and SOW 2 contracts.

### C. Reduced Deliverables from CGI

Your Committee Chair finds that DOTAX demonstrated poor fiscal responsibility and management during its negotiations of the SOW 1 and SOW 2 contract modifications. In 2008, the State paid CGI \$25,000,000 to modify the original ITIMS contract through a SOW 1 agreement. The following year in 2009, DOTAX and CGI agreed to reduce the obligations of CGI under the SOW 2 contract. The reduced obligations resulted in CGI being relieved from delivering nine initiatives to DOTAX.

Specifically, the SOW 1 contract modification executed in 2008 listed 22 initiatives for CGI to complete for DOTAX with specific benchmarks and timelines on which to complete those initiatives. The SOW 2 contract modification executed in 2009 only listed 13 initiatives for CGI to complete for DOTAX. However, there was not a corresponding reduction in the \$25,000,000 price tag the State was to pay for SOW 1. Robert Su testified that the SOW 2 contract modification also appears to relieve CGI from meeting the specific benchmarks and timelines that were contracted for in SOW 1, which raises Mr. Su's concern over what CGI will actually deliver to DOTAX on June 30, 2011. Acting Director Shiraki acknowledges that certain initiatives in SOW 1 were excluded from SOW 2, but states that the agreements between DOTAX and CGI in SOW 2 provide more flexibility to DOTAX.

## IV. CONCLUSIONS

Based on an analysis and detailed review of the information, documents, and testimony received by your Committee in the informational briefings and hearing, your Committee Chair concludes that monetary appropriations given to DOTAX for the original ITIMS contract in 1999, and the SOW 1 and SOW 2 contracts





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in 2008 and 2009 respectively, have not been wisely utilized by DOTAX. Furthermore, your Committee Chair has concerns whether the management and senior personnel at DOTAX are properly suited to carrying out certain tax revenue collection projects for the State.

Your Committee has also learned that the State Auditor is currently examining the legalities surrounding the SOW 1 and SOW 2 contract modifications between DOTAX and CGI and will be issuing a report with findings when that examination is concluded.

Respectfully submitted on  
behalf of the members of the  
Committee on Ways and Means,



DONNA MERCADO KIM, Chair

