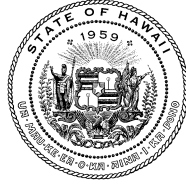


DAVID Y. IGE
GOVERNOR

SHAN TSUTSUI
LT. GOVERNOR



STATE OF HAWAII
DEPARTMENT OF TAXATION
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MARIA E. ZIELINSKI
DIRECTOR OF TAXATION

DAMIEN A. ELEFANTE
DEPUTY DIRECTOR

To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Thursday, February 9, 2017

Time: 2:00 P.M.

Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 1414, Relating to the Department of Taxation

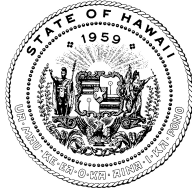
The Department of Taxation (Department) agrees with the intent of H.B. 1414 and appreciates the interest in the success of the Tax System Modernization (TSM) project. The Department provides the following comments on H.B. 1414.

H.B. 1414 requires the Office of Enterprise Technology Services (ETS) to investigate the TSM project. The measure requires ETS to submit a report on its investigation of TSM to the legislature no later than twenty days prior to the convening of the regular session of 2018. The stated purpose of the investigation is to: (1) identify any operational problems; (2) ascertain the cause of such problems; and (3) estimate any tax revenue lost due to or associated with such problems. Section 2 of this measure provides an unspecified appropriation for fiscal year 2017-2018. H.B. 1414 is effective July 1, 2017.

The Department is participating in a review directed by the Governor involving ETS, and working with the Director of Finance and the Comptroller, to review the TSM program and its processes. Observations, results of this review, and recommendations to improve processes will be compiled in a report for submission to the Governor and Legislature. For this reason, the Department does not believe the investigation proposed by this measure is necessary.

Thank you again for your interest in the success of the TSM project and thank you for the opportunity to provide comments.

DAVID Y. IGE
GOVERNOR



TODD NACAPUY
CHIEF INFORMATION
OFFICER

STATE OF HAWAI‘I
OFFICE OF ENTERPRISE TECHNOLOGY SERVICES

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Testimony of
TODD NACAPUY
Chief Information Officer, State of Hawai‘i

Before the

HOUSE COMMITTEE ON FINANCE
Thursday, February 9, 2017; 2:00 p.m.
State Capitol, Conference Room 308

HOUSE BILL NO. 1414
RELATING TO THE DEPARTMENT OF TAXATION

Chair Luke, Vice Chair Cullen, and Members of the Committee:

I am Todd Nacapuy, State Chief Information Officer (CIO) and head of the Office of Enterprise Technology Services (ETS), offering testimony on House Bill No. 1414, Relating to the Department of Taxation.

ETS supports the intent of this bill. We are presently consulting with the Department of Taxation, per the request of Governor Ige, to ensure the success of the Tax System Modernization (TSM) program.

Thank you for the opportunity to offer testimony.

TESTIMONY OF TU DUC PHAM, Ph.D.
Former, Tax Research and Planning Officer
Department of Taxation State of Hawaii

RE: February 9, 2017 Hearing on HB 1414: Relating to the Department of Taxation

Dear Chair Luke and Members of the House Committee on Finance:

My name is Tu Duc Pham. I was the Tax Research and Planning Officer within the Department of Taxation (DOTAX) from January 2005 to December 2009. I oppose HB 1414 for the following reasons:

1. In 2010, I provided a testimony in support of SCR 78. The resulting audit documented numerous problems with the tax system implemented by CGI. These problems were well known to DOTAX staff. Before I retired in 2009, DOTAX had already begun planning to replace CGI's system because it was at the end of its lifecycle. Almost a decade later, the CGI system is still in use despite the risk of an irrecoverable failure that would severely cripple DOTAX's ability to process returns and collect revenue. I have strong concerns the study commissioned by HB 1414 will further delay the replacement of CGI's tax system until it is too late.
 - a. HB 1414 appears to assume that DOTAX had been operating without problems. It ignores the numerous operational problems that necessitated the need to modernize. In its 2010 report, the Office of the Auditor states that under the CGI tax system, "bank reconciliations cannot be performed and state revenues collected cannot be verified...controls are not in place to ensure manual adjustments to the system are approved and verified..." How would anyone, much less an outside vendor, determine the revenue impact of a new tax system implementation when we can't be assured that the information we've been getting from the prior system is accurate? Since that audit, I've seen numerous news reports of issues with check cashing, issuing refunds, and erroneous bills. There has been no sign that the CGI tax system was ever fixed.
 - b. It appears that the modernization effort is still underway. It doesn't seem to make sense to analyze the operational impact of a system that has not been fully implemented. There are some online pieces that seem to have going into operation, but even that has not been up for a full year. It doesn't make sense to try to gauge performance on month to month changes in data because patterns of tax filing and collection fluctuate at different points in each calendar year. We will only be able to truly know if the new system works after we decommission the old systems we know are broken and have time to see how the new system performs.
 - c. If there are any implementation delays caused by executing HB 1414, I guaranteed that the new vendor will be delighted to demand a change order for more money. It's my understanding from public comments by the current DOTAX administration that the new vendor is from the mainland and operating on a fixed price contract. Without other local work to do, I'm certain that the new vendor will pressure the State to renegotiate terms if we lengthen the time they have to commit its staff to Hawaii. Given that they can attribute the contract change to the State's actions, the vendor will have much more negotiating leverage, especially now that we've already sunk millions of dollars and time we don't have to spare into this modernization effort.

2. During my last years at DOTAX, I witnessed strong evidence of political efforts to discredit DOTAX employees and give work to outside vendors. Politically appointed executives used their positions to shortcut the procurement process with requests for sole-source contracts. Hardworking and capable DOTAX employees received inexplicable orders to involve vendors in work they could capably handle themselves, even if that would mean subjecting the State to hundreds of thousands of dollars of unnecessary costs.
 - a. The way HB 1414 is written appears to give unlimited procurement discretion to a government office that did not even exist when I was working at DOTAX. My understanding is that initial funding for this office came from private sector donations. Procurement statutes exist to protect State money from abuse and encourage public transparency. I have strong concerns that excusing the enterprise technology office from following procurement laws will open the door for abuse. Why do we trust this new office to know more about implementing a tax system than DOTAX itself or know more about auditing than the State Auditor? I recall hearing comments from prior public hearings that DOTAX needed to hire an external vendor for independent verification and validation because no other State office had the necessary expertise. Why aren't we asking this vendor to provide reports of any operational problems? If we are not getting this, why are we paying them? If there are problems with this vendor, perhaps the investigation should be focused on the quality of that vendor's work.
 - b. While serving as the Tax Research and Planning Officer at DOTAX, it was my job to analyze data and work with the Council of Revenue to develop accurate economic reports. HB 1414 appears to be asking for information that only DOTAX can provide. No matter what external vendor is hired to help investigate, they will ultimately be looking towards DOTAX to provide the data they need. Why not demand DOTAX provide this information directly? There doesn't appear to give more taxpayer dollars to a vendor for work that taxpayers are already paying DOTAX staff to perform.

I would like to suggest that the appropriate timing for studies of the tax modernization effort's impact is after we have put our defunct tax system behind. No theoretical analysis is going to prove the performance of the new tax system. We need to gather real data from its operational use. If vendors are hired to perform this type of investigation, the State should conduct an open and transparent procurement that follows our procurement laws. Thank you for the opportunity to provide my opinion on why we shouldn't have an organization with no tax expertise bypass the procurement process to produce data that DOTAX should be able to provide.

Very truly yours,



Tu Duc Pham, Ph.D.
Former Tax Research and Planning Officer
Of the Hawaii Department of Taxation
3742 H Old Pali Road
Honolulu Hawaii 96817

Testimony on H.B. 1414
Relating to the Department of Taxation

LATE

By: Hamid Jahanmir

House Committee on Finance

Thursday, February 9, 2017
2:00 p.m., House conference room 308

Chair Luke, Vice Chair Cullen, and Committee Members:

H.B. 1414 requires an investigation and report on the problems of the tax system modernization project of the department of taxation. As a retired public servant (a former Senior Economist at DBED, the Office of Planning, and the Department of Taxation) I have concerns about outsourcing of government functions to costly contractors with uncertain skills and capabilities to perform the task.

H.B. 1414 makes the office of enterprise technology responsible for this work, but it appears that its only involvement will be to spend more money to hire “consultants”. At a time when the need to cut proposed State budgets is making headlines, I question the wisdom of spending money, and other resources, to investigate problems that may or may not exist. How are the private industry outsiders going to know whether the tax modernization efforts is going well any better than the capable civil service employees of the department of taxation, who have the proven skills and dedications? I know their capabilities and dedications since I worked with them for over 6 years. Does the enterprise technology office have enough tax expertise to know what kind of people are needed to be hired for this study?

I encourage the House Committee on Finance to seriously consider and evaluate how the money spent performing this study could add any value to the State functions and improve the well-being of Hawaii’s citizens.

Sincerely,

Hamid Jahanmir