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To: The Honorable Donna Mercado Kim, Chair
and Members of the Senate Committee on Government Operations

The Honorable Donovan M. Dela Cruz, Chair
and Members of the Senate Committee on Ways and Means

Date: Tuesday, April 3, 2018
Time: 10:15 A.M.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Taxation

Re: S.C.R. 62, Requesting the State Auditor, in conjunction with the State Procurement Office, if necessary, to conduct a financial and management audit of the Tax System Modernization Project, with a focus on the project's contracts

The Department of Taxation (Department) appreciates the intent of S.C.R. 62 and offers the following comments for the committees' consideration.

S.C.R. 62 requests the State Auditor to audit the Tax System Modernization (TSM) project, with a focus on the procurement of the project's contracts. The resolution requests the Auditor to report its findings and recommendations to the Legislature no later than 20 days before the 2019 legislative session.

Completing a financial and management audit of the TSM project, with a focus on the procurement of the project's contracts, in late 2018 will not have a substantive impact on the TSM project.

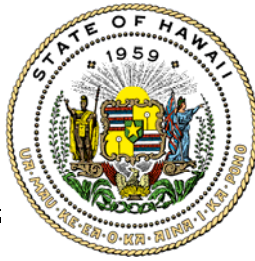
- If the 2018 Legislature provides the funding needed to continue the project beyond July 2018, the project will complete its fourth functional deployment in November 2018. The final functional deployment will be completed in July 2019. Once the functional deployments are completed, the project will transition to warranty (through July 2020) and maintenance.
- It is unclear how a Financial and Management Audit focusing on the procurement of the

project's contracts will provide additional actionable feedback to improve the TSM project.

- Three (3) procurements were completed for the TSM project: Software acquisition and deployment services (April 2014), Independent Verification and Validation (IV&V) services (December 2015), and Co-location services vendor (March 2016).
- The Department, including the TSM project, is reviewed annually as part of the State's Comprehensive Audit Financial Report (CAFR) and by the Internal Revenue Service (IRS). The CAFR and IRS reviews include a review of the Department's technical and management processes. Another Financial and Management Audit is not needed.
- SCR 62 references the problems with the IV&V contract for the TSM project. Following the termination of the IV&V services contract with AdvanTech, as referenced in the SCR, the Department worked with the State Procurement Office and the Office of Enterprise Technology Services (ETS) to develop a procurement approach (scope of work and governance structure) for new IV&V services. The new RFP is different in two ways:
 - The IV&V review will provide a robust "Technology Audit" of the TSM project to assess whether (1) we built the product right and (2) whether we built the right product. This approach is based on internationally recognized standards for system and software verification and validation.
 - ETS is leading this procurement and contracting to provide independence.

The reports produced under the new IV&V contract will be submitted to the Legislature.

Thank you for the opportunity to provide comments.



SENATE COMMITTEE ON GOVERNMENT OPERATIONS

The Honorable Donna Mercado Kim, Chair
The Honorable Russell E. Ruderman, Vice Chair

SENATE COMMITTEE ON WAYS AND MEANS

The Honorable Donovan M. Dela Cruz, Chair
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair

**S.C.R. NO. 62, REQUESTING THE STATE AUDITOR, IN CONJUNCTION
WITH THE STATE PROCUREMENT OFFICE, IF NECESSARY, TO
CONDUCT A FINANCIAL AND MANAGEMENT AUDIT OF THE TAX
SYSTEM MODERNIZATION PROJECT, WITH A FOCUS ON THE
PROJECT'S CONTRACTS**

Hearing: Tuesday, April 3, 2018, 10:15 a.m.

The Office of the Auditor **has no position** regarding S.C.R. No. 62, which requests the auditor to conduct a financial and management audit of the tax system modernization project of the Department of Taxation, focusing on the project's contracts to ensure that appropriate procurement procedures are being executed. **However, we have the following comments.**

According to the Department of Taxation, the Tax System Modernization Program is a series of projects that is slated to be completed by 2020. In other words, implementation will be ongoing during the period of the requested audit. Our office generally does "postaudits" of programs or agencies, and would need to be careful not to interfere with or impede the implementation of the Modernization Program. We suggest that the due date for the audit report be extended one year, to be provided no later than 20 days prior to the convening of the Regular Session of 2020.

Thank you for considering our testimony regarding S.C.R. No. 62.

SCR-62

Submitted on: 3/29/2018 4:12:47 PM

Testimony for GVO on 4/3/2018 10:15:00 AM

| Submitted By | Organization | Testifier Position | Present at Hearing |
|-----------------------|---------------------|---------------------------|---------------------------|
| Javier Mendez-Alvarez | Individual | Support | No |

Comments: