

# Integrated Tax System Modernization Project Status Report

August 1, 2024

*Joint Legislative Oversight Committee on  
General Government*

*Senate Appropriations Committee on  
General Government and Information  
Technology*

*House of Representatives Appropriations  
Committee on General Government*

*Fiscal Research Division*

## Table of Contents

<a href="#"><u>Legislative Request.....</u></a>	<a href="#"><u>2</u></a>
<a href="#"><u>Executive Summary .....</u></a>	<a href="#"><u>3</u></a>
<a href="#"><u>Project Timeline.....</u></a>	<a href="#"><u>4</u></a>
<a href="#"><u>Project Management Plan.....</u></a>	<a href="#"><u>4</u></a>
<a href="#"><u>Request for Proposal Process.....</u></a>	<a href="#"><u>5</u></a>
<a href="#"><u>Budget and Year to Date Expenditures .....</u></a>	<a href="#"><u>5</u></a>
<a href="#"><u>Implementation.....</u></a>	<a href="#"><u>5</u></a>

## Legislative Request

This report is submitted pursuant to Section 34.9(d) of S.L. 2023-134, which directed the N C Department of Revenue to provide a report to the Joint Legislative Oversight Committee on General Government, the Senate Appropriations Committee on General Government and Information Technology, the House of Representatives Appropriations Committee on General Government, and the Fiscal Research Division.

### **DOR/MODERNIZED INTEGRATED TAX SYSTEM**

**SECTION 34.9.(a)** Of the funds appropriated in this act to the Department of Revenue, the Department shall use the sum of twenty-five million dollars (\$25,000,000) in nonrecurring funds for each fiscal year of the 2023-2025 fiscal biennium to develop and implement a modernized integrated tax system. The provisions of Part 4 of Article 15 of Chapter 143B of the General Statutes shall apply to the Department's procurement of information technology under this section, including the provisions related to the issuance of requests for proposals; provided, however, in its solicitation for requests for proposals for the modernized integrated tax system, the Department shall accept for evaluation proposals from vendors who have developed, marketed, or deployed an integrated tax system solution, in whole or in part, that is of a similar size and complexity as the tax system administered by the Department. To encourage innovative and new solutions, the Department shall also accept proposals from vendors who have experience in deploying enterprise systems of a similar size and complexity as the tax system administered by the Department even if the system is not an integrated tax system. The Department shall not require bidders to have existing integrated tax systems in production environments.

**SECTION 34.9.(b)** The funds appropriated in this act to the Department of Revenue for each fiscal year of the 2023-2025 fiscal biennium for the modernized integrated tax system shall be certified in a new fund code in Budget Code 24708. The new fund code shall be used only for the receipts and expenditures for the modernized integrated tax system authorized in this section until the system is fully implemented.

**SECTION 34.9.(d)** Not later than February 1 and August 1 of each year until the completion of the implementation of the modernized integrated tax system authorized in this section, the Department of Revenue shall report to the Joint Legislative Oversight Committee on General Government, the Senate Appropriations Committee on General Government and Information Technology, the House of Representatives Appropriations Committee on General Government, and the Fiscal Research Division on all of the following:

- (1) A detailed project description.
- (2) A detailed project timeline, including milestones and deliverables and progress in achieving them.
- (3) The project management plan.
- (4) The process used for issuing requests for proposals.
- (5) A detailed budget and year-to-date expenditures.
- (6) The anticipated completion date for full implementation of the modernized integrated tax system.

## Executive Summary

The Integrated Tax Administration System (ITAS) has been in use within the State of North Carolina for more than 25 years. In addition, the Public Sector Revenue Management (PSRM) system was implemented in 2013 and manages a small number of smaller tax types. Over time systems and applications have been developed separately and interfaced with the main tax system to provide additional functionality and services such as Refund Fraud.

Agency representatives visited 5 states including South Carolina, Tennessee, Kentucky, Rhode Island and Pennsylvania to learn about their tax system modernization initiatives. Information gathered from these visits was used to estimate the project cost and continues to be used during development of the request for proposal and project planning.

NCDOR requested funding in 2023 to replace the Integrated Tax Information System (ITAS) and an array of legacy systems with a modern system that is customer centric, meets diverse needs of various agency constituencies and satisfies the business needs of NCDOR. The legacy system is becoming more difficult to support and the risk of operational interruptions is increasing. While the legacy system functions as it was originally designed, there are constraints when trying to make legislative changes and current systems limit the ability to provide online and electronic services taxpayers expect. Through a new, modernized tax administration system, NCDOR anticipates realizing the following operational benefits:

- **Reduced Risk** of technological obsolescence via a more modern technical platform. Minimize risks associated with recruiting and retaining an adequate workforce to support a critical system for processing state tax revenues.
- **Processing Efficiencies** through enhanced electronic services for submitting returns and payments for all tax types resulting in less need for handling paper and less manual intervention to correct errors; provide additional automation for recurring manual processes.
- **Enhanced Customer Service** realized by an integrated taxpayer portal that allows taxpayers to look up account information, set up payment plans, and review electronic transactions and communications such as prior tax filings, payments and correspondence. Improved usability of the system that makes it easier for staff to look up taxpayer records, see prior taxpayer interactions and answer questions quickly, improving customer service.
- **Timely System Changes** provided for legislative changes, mandates and other requirements that necessitate software updates to meet statutory requirements. Be flexible and scalable to support ongoing enhancements and changes necessary for the administration of the tax programs.
- **Information Security and Compliance** by enhancing system and data security, fraud detection and internal controls in order to meet all IRS, federal and state compliance requirements.
- **Improved Taxpayer and Revenue Accounting** through defined relationships of all data supporting the tax administration process to ensure completeness and reconcilability of accounting data for both the taxpayer and revenue accounting functions.

## Project Timeline

The project is currently in the procurement phase. Upon selection of a vendor, an implementation project timeline will be developed including milestones.

NCDOR has engaged Gartner to assist in developing the Request for Proposal (RFP) package and provide procurement support through contract award. The milestones and dates have been revised to align with current state of the solicitation.

Milestone	Due Date
Request for Proposal (Draft)	August 30, 2024
Request for Proposal Review, Revisions and Approval to Post (DOR/DIT)	October 30, 2024
Vendor Questions and Responses, Evaluation Team Review and Demonstrations	April 30, 2025
Vendor Selection and Best and Final Offer Negotiations	June 30, 2025
Contract Award	July 31, 2025

## Project Management Plan

During the procurement phase of the project, the Deputy Secretary of Enterprise Services is managing activities supporting development of the RFP through contract award.

NCDOR engaged Gartner to complete a NCDOR Readiness Assessment and Roadmap. Agency readiness was evaluated by surveying agency leaders focusing on 8 areas:

- Strategy and Business Value
- People
- Procurement
- Organizational Change
- Architecture and Technology
- Finance
- Governance
- Tax and Revenue

Gartner analyzed survey results, applied their subject matter expertise in large tax system modernization projects and leveraged discussions with NCDOR strategic team members to deliver a roadmap focused on 8 critical areas:

- Project Management
- Project Governance
- RFP Development and Procurement
- Business Process Inventory
- Resource Planning
- Organizational Change Management
- Data Conversion
- Future Operations Model

The Readiness Assessment and Roadmap is being used for project planning and project management of pre-contract award activities.

### Accomplishments This Period

- ✓ Subject matter experts completed 2nd review of functional capabilities and provided content to Gartner for the RFP
- ✓ Contract awarded for Gartner services to support RFP package development and procurement support
- ✓ SAS completed data management analysis and provided results
- ✓ Developed statement of work (SOW) for a code management solution and professional services

### Activities In Progress or Planned

- Complete RFP development
- Receive approval to post RFP
- Complete procurement and engage vendor for code management solution
- Complete procurement and engage vendor for data mapping services to support data conversion
- Complete procurement for ServiceNow Strategic Portfolio Management module to support capturing IT demand and resource management
- Complete procurement and engage vendor for oversight and delivery of roadmap initiatives to include:
  - Establish tax system modernization project management office
  - Establish project governance
  - Inventory business processes and data exchanges
  - Document a resource plan
  - Define an organizational change management strategy and structure
  - Identify and manage work to support readiness for data conversion
  - Document project risks and begin developing risk mitigation plans

### Request for Proposal Process

NCDOR will abide by NCGS 143B-1350 Procurement of Information Technology. Content for the Request for Proposal is being drafted by NCDOR staff. Gartner is assisting with development of the RFP package and providing procurement support through contract award.

### Budget and Year to Date Expenditures

The estimated cost for the entire project is \$158,331,000. The estimate includes system licensing, implementation services, maintenance, application support, hosting services and data services as well as supplemental staffing and professional services to support project activities not provided by the tax system vendor.

Selection of a vendor will require review of the estimated budget and potential cost adjustments based on actual solution costs per the contract. HB259 included \$25,000,000 for FY24 and FY25 which is sufficient to support initial project activities.

## Expenditure Summary

Gartner Readiness Assessment and Roadmap	\$270,000	Complete
Gartner RFP Package Development and Procurement Support	\$674,780	Work In Progress
Code Management Solution and Professional Services	\$996,800	Procurement In Progress
Conversion Preparation: Data Mapping and Professional Services	TBD	SOW* in Progress
Roadmap Readiness Activities and Project Management	TBD	SOW* in Progress
ServiceNow Strategic Portfolio Management	TBD	SOW to be drafted

\* Statement of Work

## Implementation

Project implementation is expected to include 5 phases. Phases will be determined by groups of tax types. Assuming contract award will occur by July 2025, Phase I could be implemented by December 2026. If each additional phase is planned for a year, all phases of the project would be implemented by December 2030.

Once a vendor is selected, a project plan will be developed and could impact the anticipated completion date.