Management and Financial Audit of Department of Taxation Contracts

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Lack of planning and fractured management undermine the State's tax collection efforts

Unplanned, ill-advised growth

In 1999, the Department of Taxation (DoTAX) began a five-year, $51 million effort to replace its aging computer systems. By October 2004, the department and its vendor completed six major system implementations. Then, over the next four years, the effort continued with an additional 13 projects and enhancements to the system. This was followed in January 2008 by yet another system enhancement—a $25 million delinquent tax collections project, which called for an additional 22 new collection initiatives. Long-term planning for these projects was minimal to non-existent, and oversight was left to managers with no formal project management or information technology (IT) background.

Throughout this period, staff were also tasked with developing, testing, and implementing enhancements, fixes, and tax law changes to the growing system. Despite this increased workload, staffing levels have remained relatively constant since 2003. To compensate for this shortfall, DoTAX allowed its vendor to become an essential component in its IT infrastructure. This seeming preference for the vendor over its own internal IT staff led to management conflicts so corrosive the Governor's Office intervened. In 2008, an email from a vendor's manager which used inflammatory language to characterize many DoTAX managers and the work environment, led to further acrimony and a six-month work stoppage that delayed contract deliverables.

"Terrible, terrible, terrible."

— DoTAX deputy director, when asked to describe the work environment at the department in 2009

A flawed contract, an IT system in trouble

In this environment of discord, the department modified the Delinquent Tax Collections Initiatives contract. We found that this 2009 modification was crafted independently by a former deputy director with no formal IT background or training. It removed the obligation of the vendor to complete the 2008 contract's 22 initiatives as well as a constraint limiting payment to the vendor to $9.8 million for work on the 2008 contract. Instead, the 2009 modification allowed the vendor to receive the remaining compensation of $15.2 million from new collections without first completing deliverables from the 2008 contract. In addition, the modification also deleted contract provisions that removed the department's ability to hold the vendor accountable for defects and system integration problems.

We also found that not only is the department unable to sustain the current rate of system enhancements, it will also struggle to maintain current levels of activity without assistance. For instance, the department's funding for the system expansion, a trust account which did not go through the legislative appropriations process, will close on June 30, 2011. With an IT infrastructure in near continuous project development mode for more than a decade, we found an internal staff that is stretched thin and frustrated with spending the majority of their time doing system testing at the expense of other responsibilities. In spite of these problems, the department has not adequately planned for June 30, 2011, when it will lose vendor support and must operate independently.

According to the interim director, the department has initiated corrective actions that will address some of the recommendations noted in our report. The corrective actions include the addition of a position count to the Information Technology System Office to augment short staffing, as well as training an additional ten system administrators to supplement system quality assurance resources. The department is also in the process of identifying project management training opportunities that are available locally. Lastly, the interim director assured us that the department will continue to review our recommendations as it monitors for improvements.

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