HOUSE APPROPRIATIONS GOVERNMENT OPERATIONS DIVISION COMMITTEE SB 2013
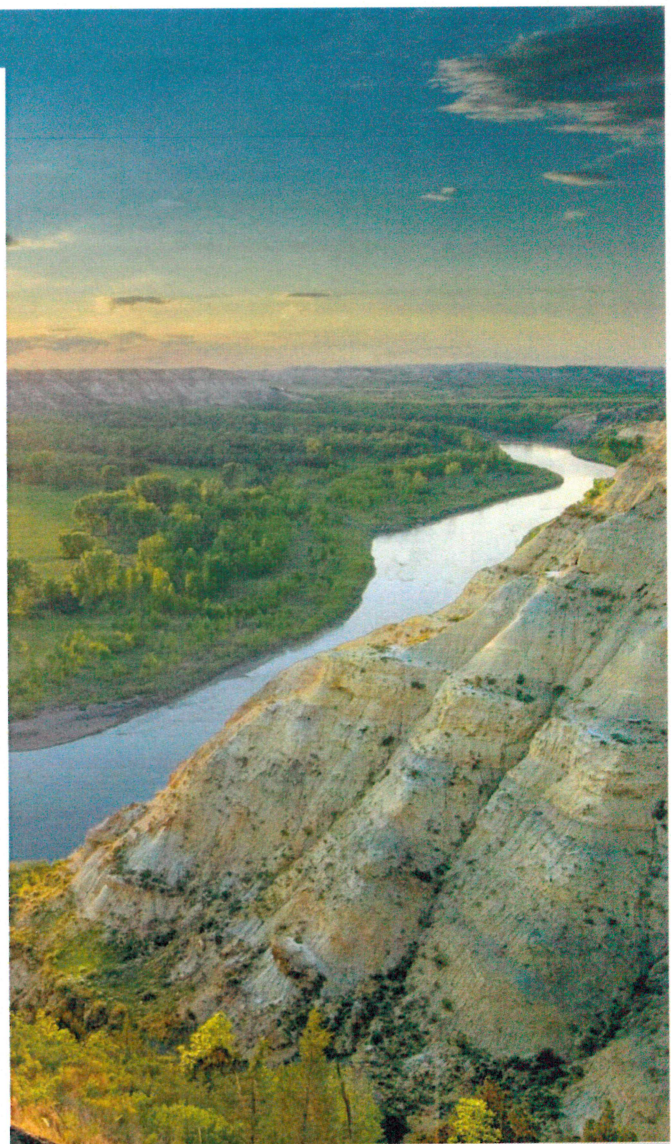
March 15, 2021

ND Department of Trust Lands' Testimony

Commissioner Jodi Smith

NORTH Dakota Be Legendary. | Trust Lands

Testimony of Commissioner Jodi Smith

Chairman Vigesaa and members of the House Appropriations - Government Operations Division Committee, I am Jodi Smith, the Commissioner and Secretary for the Board of University and School Lands (Board). I am here to testify regarding the Department of Trust Lands' (Department) total special funds appropriation found in Senate Bill 2013.

INFORMATION TECHNOLOGY

INFORMATION TECHNOLOGY HARDWARE & SOFTWARE REPLACEMENT

Severe limitations in the Department's information technology (IT) system, including redundant manual processes, have hampered efficiencies for decades. Many of the Department's core data management systems were developed in the 1980s and 1990s, using designs and tools no longer supported by vendors. Some supplemental system improvements and purchases have been implemented; however, the outdated database structure restricts many potential improvements.

The Department's 2017-2019 biennial budget appropriation included $3.6 million to replace legacy IT systems as authorized by Senate Bill 2013 of the Sixty-fifth Legislative Assembly.

In planning for replacement of the IT systems a business process modeling contractor, Major Oak, was hired in 2016 to identify and document processes and to recommend efficiencies for most operations. Major Oak helped document current state processes for all functional areas of the Department. This was followed by preparation of a model of future-state suggestions to further enhance controls, increase efficiencies, and boost productivity.

Over the course of the past four years, the Department has been working towards replacing all software and IT equipment. This requires a highly coordinated effort between North Dakota Information Technology Department (NDIT), Office of Management and Budget, and Department staff.

IT Hardware Upgrades

In 2018, a review of all the Department's hardware was completed, and necessary replacements were finalized. Below is a chart of the expenses relating to hardware expenses for the past decade:

	2011-13 Expenditures	2013-15 Expenditures	2015-17 Expenditures	2017-19 Expenditures	2019-21 Projected Expenditures	2021-23 Projected Expenditures
IT Equipment Under $5,000	$ 29,596	$ 26,756	$ 41,936	$ 36,801	$ 12,480	$ 22,000

Over the course of the past year, several unanticipated upgrades or replacements were necessary to ensure team members had the necessary equipment to work remotely. The Department has limited antiquated equipment remaining in operation and the Department's plan for replacement will be executed in the next biennium.

IT Software Upgrades

Unclaimed Property

The Department signed a contract with Kelmar, a software company providing specialized services and solutions to assist governments, to help with the management and administration of the unclaimed property program. With substantial knowledge of state governments, system tools, and process workflows, Kelmar has been helping unclaimed property departments across the United States since 2001. By dedicating its organization exclusively to matters of unclaimed property, Kelmar maintains the necessary subject matter expertise and reliability to serve as a partner in unclaimed property resources and offer the next step in unclaimed property management. Not only has the Department partnered with Kelmar on software, but we have also drawn on its unclaimed property experience to: increase the amount of unclaimed property returned and reunited with rightful owners; reduce risk associated with administering unclaimed property program operations; implement efficiencies and best practices to manage unclaimed property in safekeeping; and achieve program goals using dedicated and cost effective unclaimed property resources.

The go-live date for Kelmar was April 29, 2019. The URL for the new cloud-based software is https://unclaimedproperty.nd.gov. In October 2019, Kelmar visited the Department's Unclaimed Property Division (Division) to ensure the Division was using the software to its utmost capability. Kelmar identified several opportunities for improvement that the Division immediately implemented. Of significance is Kelmar's observation of the Department's administrative support staff, as Kelmar noted this team is the "gold standard" and is recommending unclaimed property agencies across the nation adopt the standards the Department has implemented.

The implementation of the Division's unclaimed property software led to the creation of numerous Department efficiencies. Many of these efficiencies where identified in 2016 by Major Oak but were not implemented due to IT restraints. Additionally, the Department has been able to address findings identified by the 2016 Performance Audit Report Number 3036b (Unclaimed Property). Kelmar reviewed the Division's utilization of its system efficiencies six months after the go-live date. This allowed the Division to identify opportunities that were not implemented upon go-live.

On March 10, 2021, NDIT presented testimony stating "Trust Lands able to process 610 claims in August compared to 368 in ALL of 2018." This is an inaccurate statement. The Department processed 8,807 properties in the 2017-2019 biennium, compared to 5,014 claims in the 2017-2019 biennium. There is a distinct difference between properties and claims. In our current system, one claim can encompass multiple properties. However, in the previous software system there was a separate claim made for tracked each property. It's not simple to compare the two systems. However, it is easy to state that the new system has created numerous efficiencies through:

- Leveraging new technology
- An updated website
- An updated web portal for both holders and claimants

- FastTrack system allowing the IT system to automatically pay claims if 80% of the information matches
- Securities reconciliation
- Kelmar Fraud Index Solution assists the Department in detecting fraudulent claims

It is also important to note, this implementation occurred prior to the Department engaging in the NDIT Unification project. The project went live on April 1, 2019, and the unification was approved by the Sixty-sixth Legislative Assembly to be completed on July 1, 2019. While the Department is appreciative of the insight NDIT provided to the Department throughout the project, this was completed as a partnership not as a part of the unification. This project had the oversight of an Executive Steering Committee as required for major IT projects under N.D.C.C. § 54-59-32.

Financial Management and Accounting

In 2017, the Department created a Request for Proposal (RFP) for the combined needs of the Land Management and Financial Management and Accounting systems; however, the number of responses was limited, and those proposals did not meet the Department's requirements. Thereafter, in October 2018, the Department issued the RFP for the Financial Management and Accounting (FMA) system which did not include the Land Management system. In December 2019, the Department awarded a contract to Ernst and Young to implement the Microsoft Dynamics 365 for Finance and Operations system with a go-live date of July 1, 2020.

This project is on-going. The Department continues to work with the vendor to resolve issues that have occurred post go-live. Support for this software is outsourced to Ernst and Young for an estimated cost of $39,500-$72,000, with expenditures tied to the level of use.

While the implementation of the FMA system does not create immediate efficiencies, the Department anticipates significant efficiencies upon the implementation of the Surface and Minerals Land Management Systems. Additionally, the implementation of new systems has allowed the Department to ensure necessary controls, previously unable to be implemented, are in place.

Surface Land Management

On December 16, 2019, the Department issued the RFP for the Surface Land Management system. The Department went through an extensive review process. On June 30, 2020, the Executive Review Committee approved the Department's vendor preference. In October 2020, the Department executed a contract with Ernst and Young to implement the Microsoft Dynamics 365 product to implement the Surface Land Management system. It is anticipated the go-live will be July 17, 2021. The Department did not have funding to implement the Minerals Land Management System.

Revenue Compliance

On September 14, 2020, the Revenue Compliance Division successfully launched the migrated and updated software system. Wolter Kluwer provides the auditing software, TeamMate Audit Solutions, for the Department (and the state). The Department has been utilizing the software for many years

and this upgrade allowed for new strategic functions to aid in the auditing of over 13,000 contracts. Additionally, the software now resides in the cloud versus a server within NDIT, thus providing more efficient teleworking capabilities for the Department. This project was not included in the capital expenses; the cost to the Department was $32,820.

<u>IT Capital Budget</u>

The total cost of the Unclaimed Property system was $66,956:

- Kelmar $38,000

- NDIT (Project Management) $28,956

The total of the FMA system is $1,829,578:

- Ernst and Young $1,589,830

- NDIT (Project Management and Data Conversion) $84,328

- Major Oak $155,420

Estimated cost for the Surface Land Management system is $1,494,318:

- Software vendor $1,259,985

- NDIT (Project Management and Data Conversion) $135,546

- Enterprise Project Management Oversight Fee $7,500

- Risk Contingency $150,000

- Major Oak $76,287

The Department has successfully implemented two systems; however, the expense of the Unclaimed Property and FMA system and the Surface Land Management systems leaves inadequate funding for the Minerals Land Management system. The Department was appropriated $3,600,000 by the Sixty-fifth Legislative Assembly. It is anticipated the Department will need the additional $1.6 million, as originally requested during the Sixty-fifth Legislative Assembly, to implement the Mineral Land Management system (original request was for $5,250,000.)

The Department has incurred several unanticipated costs, resulting in the need for additional funding. Those costs include:

1. The cost associated with the implementation of the Microsoft Dynamics product for the FMA system exceeded the original estimates. The original estimate for this system was $440,000 with the actual costs at $1,829,578.

2. Costs associated with ex-Department team members who were unified and now work for NDIT are charged at a per hour rate of $85 and $99 to assist with the data migration and implementation of the FMA system. There was no funding budgeted for this expense. Previously, this expense would have been charged through the Departments salary line and then expensed to the appropriate Trust.

3. The Department contracted with Major Oak to consult on the FMA and Surface Land Management procurement processes for a total cost of $231,707.

Without additional $1.6 million in funding, the Department will not be able to replace the 1988 legacy system that currently manages the Board's mineral assets (inclusive of 2.6 million mineral acres and over 8,200 leases.)

IT UNIFICATION

As this Committee is aware, the Department's 2019-2021 budget included the unification of two Programmer Analysts. Per House Bill 1013 of the Sixty-sixth Legislative Assembly, two Department FTEs were transferred to the NDIT, reducing the Department's salaries and wages by $365,933.

In November 2018, the Department began working with NDIT to assess the technical skills of the two Department employees who would be transferred to NDIT through the unification. In January 2019, NDIT hired one of the Department's Programmer Analysts. On July 1, 2019, the second Programmer Analyst was transferred to NDIT.

There are both successes and challenges adherent to the partial IT unification.

Unification Successes

The Department has a more fluent and strengthened relationship with NDIT as a result of the unification and the implementation of new software systems.

Unification Challenges

The Department has faced numerous challenges as a result of the unification.

One example is the delay in services. Our agency now must put in a workorder for an issue to be addressed, versus asking for in-house assistance. This workorder must be manually assigned in NDIT's system to one of the programmers assigned to assist the Department. This can result in a delay of services that was not previously experienced. Further, our two previous Programmer Analysts are no longer working in our system on a day-to-day basis and, thus, are losing the ability to work within the code. Now when issues arise it takes longer to find a solution and additional "work arounds" are being created.

While the Department continues to support the transfer of the Programmer Analysts to NDIT, the timing of the transfer should have occurred at a later date, after the legacy systems had been replaced. In hindsight, the Department should have transferred one Programmer Analyst to NDIT last biennium and planned on an additional transfer for the next biennium, which would have allowed for more timely response to issues arising from the current legacy systems.

While the Department has reduced salary expenses, these expenses have been transferred to licensing and support costs for software support:

	2011-13 Expenditures	2013-15 Expenditures	2015-17 Expenditures	2017-19 Expenditures	2019-21 Projected Expenditures	2021-23 Projected Expenditures
IT Salary Expenses	$ 316,169	$ 587,358	$ 562,806	$ 484,789	$ 187,783	$ 187,784
IT Software/Licenses	$ 16,163	$ 30,127	$ 18,350	$ 50,617	$ 390,285	$ 861,235
Total	**$ 332,332**	**$ 617,485**	**$ 581,156**	**$ 535,406**	**$ 578,067**	**$ 1,049,018**

Overall, the Department has not seen a reduction in expenses:

	2011-13 Expenditures	2013-15 Expenditures	2015-17 Expenditures	2017-19 Expenditures	2019-21 Projected Expenditures	2021-23 Projected Expenditures
IT Salary Expenses	316,169	587,358	562,806	484,789	187,783	187,784
IT Software/Licenses	16,163	30,127	18,350	50,617	390,285	861,235
IT Equipment Under $5,000	29,596	26,756	41,936	36,801	12,480	22,000
IT Data Processing	106,175	105,948	114,961	158,516	161,300	216,698
IT Communications	29,769	27,163	26,246	26,408	39,751	37,327
IT Contractual Services and Repairs	-	-	115	15,904	359,429	468,500
Biennial Total	**$ 497,872**	**$ 777,352**	**$ 764,414**	**$ 773,035**	**$ 1,151,027**	**$ 1,793,543**
IT Capital Expenditures	-	-	-	210,471	3,389,529	1,600,000

It is the Department's understanding that the intention of the unification was multifaceted and includes the need to reduce costs to agencies and create efficiencies; however, the Department has experienced neither. What the Department has done, through a partnership and collaborative efforts, is implement three new IT systems with the implementation of a fourth scheduled to occur in July 2021. Additionally, the Department recognizes the need for stronger cybersecurity efforts across state agencies. Hence, the Department launched a new website on an ITD approved platform to ensure NDIT can aid the Department in monitoring security attacks. Again, this project was also completed through collaboration and a partnership, not through unification.

We look forward to working with the Committee on these issues and would be happy to answer any questions.