



NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE

Program
Evaluation
Unit

Program Evaluation: GenTax Upgrades,
Maintenance and Security

August 22, 2018

Report #18-07

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August 22, 2018

John Monforte, Acting Secretary
New Mexico Taxation & Revenue Department
1100 South St. Francis
Joseph Montoya Building
Santa Fe, New Mexico 87504

Dear Acting Secretary Monforte:

On behalf of the Legislative Finance Committee (Committee), I am pleased to transmit the program evaluation *GenTax Upgrades, Maintenance and Security*. The objectives of the evaluation were to assess the impact of GenTax upgrades to TRD's processes, status of GenTax maintenance and support, and GenTax access controls.

The report will be presented to the Committee on August 22, 2018. An exit conference was held on August 17, 2018, with the Taxation and Revenue to discuss the contents of this report. The Committee would like a plan to address recommendations in this report within 30 days of the release of the report.

I believe this report addresses issues the Committee asked us to review and hope your department will benefit from our efforts. We appreciate the cooperation and assistance we received from your staff.

Sincerely,

A handwritten signature in cursive script that reads "David Abbey".

David Abbey, Director

Cc: Representative Patricia Lundstrom, Chairwoman, Legislative Finance Committee
Senator John Arthur Smith, Vice-Chairman, Legislative Finance Committee
Estevan Lujan, Acting Secretary, Department of Information Technology
Keith Gardner, Chief of Staff, Office of the Governor
Wayne A. Johnson, State Auditor

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Expanding GenTax Functionality Has Improved Revenue Collection, However Issues Persist

The Taxation and Revenue Department (TRD) is responsible for collecting and distributing tax revenues for the state and local governments, including gross receipts, personal, corporate, compensating, and payroll withholding taxes. TRD also collects oil and gas royalties and severance taxes. These revenues fund functions of state and local governments such as public schools and universities, Medicaid, roads, and capital infrastructure, so it is vital revenues are collected and distributed correctly. TRD's tax administration software, GenTax, is used to track the collection of \$6 billion to \$7 billion a year in taxes and other revenues, as well as the distribution of those revenues. Its functions include processing tax returns and generating tax refunds, and data in the system supports audits and other activity.

GenTax recently went through two important system upgrades after years of missed upgrade opportunities due to lack of funding. These upgrades improved TRD's ability to collect unpaid tax revenues through process improvements such as the Discovery data warehouse. For example, TRD collected an additional \$20.5 million in tax revenues in FY14 due to functionality gained from upgrading GenTax. Maximizing revenue collection and reducing the tax gap offers the Legislature more resources with which to fund government functions.

However, upgrading and managing GenTax operations has not come without challenges including errors in how tax revenues were distributed to local governments as well as a lack of segregation of duties, a key control to ensure process integrity. In light of the critical function GenTax performs, LFC staff evaluated the impact of software upgrades, the role of the maintenance and support contract in GenTax's day-to-day operations, security access, TRD's level of preparation for disaster recovery, and how effectively TRD incorporated oil and gas revenue collection into GenTax.

The evaluation found while upgrading GenTax brought many new tools and process improvements leading to increased tax revenue collections, TRD has experienced challenges in the development process contributing to incorrect tax revenue distributions to local governments and with the Business Credit Module. Also, TRD does not have a disaster recovery plan in place if GenTax fails, access to the system was not properly managed, and TRD's initiative to expand external data analytics tools may be costly and duplicative.

The report recommends TRD provide status updates to the Legislative Finance Committee on the tax revenue distribution process through GenTax and plans to expand external data analytic functions, continue to remain current on software upgrades and service packs, create and distribute a disaster recovery plan, and ensure all TRD staff working with GenTax have appropriate security access and have completed all required IRS and TRD trainings.



Background

The Taxation and Revenue Department (TRD) Act, created TRD as a single, unified department to administer all laws and exercise all functions relating to taxation, revenue, and vehicle administration. The constituencies of the department include other State agencies; cities and towns; counties; and taxpayers, both private individuals and businesses.

TRD implemented the GenTax software system as the tax system of record for New Mexico beginning in 2002. GenTax is a commercial-off-the-shelf (COTS) solution from Fast Enterprises, LLC (FAST). GenTax is an integrated tax processing system designed to support an agency implementing multiple taxes. The system adapts to diverse revenue agency requirements through configuration and not customization. GenTax processes revenue for 29 tax programs (Appendix B) administered by TRD, and currently processes \$6.5 billion to \$7.4 billion in annual state and local revenues. Because GenTax is proprietary software requiring contractor support for changes to any core functionality, TRD continues to sole source contract with FAST, and this remains a concern. Twenty-eight other states and nine local governments across the country use the GenTax software solution.

TRD's Information Technology Division (ITD) is responsible for maintaining its mission critical systems, GenTax and Tapestry, which provide technology and functionality vital for collection of taxes and processing transactions related to the Motor Vehicle Division. ITD is comprised of production, development, and support teams providing agency database management, IT operations, desktop support, and network and systems infrastructure. ITD reports directly to the TRD Cabinet Secretary and is led by a Chief Information Officer (CIO).

The GenTax system is the state's tax system of record.

TRD Information Technology Division is responsible for GenTax system administration.

A Gartner study of critical capabilities for Integrated Tax System COTS products rated Fast Enterprises' GenTax product excellent.

**Table 1. TRD Information Technology Division
Summary of Funding and Expenditures FY14 - FY19**
(in thousands)

	FY14	FY15	FY16	FY17	FY18	FY19
SOURCES	Actuals	Actuals	Actuals	Actuals	OpBud	OpBud
General Fund	\$9,730.1	\$11,340.2	\$11,278.8	\$10,162.5	\$9,643.3	\$9,536.1
Other Transfers	\$505.8	\$620.6	\$610.8	\$542.6	\$620.6	\$0.0
Federal Revenues	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other Revenues	\$763.0	\$770.2	\$773.1	\$823.0	\$970.7	\$911.5
TOTAL SOURCES	\$10,998.9	\$12,731.0	\$12,662.7	\$11,528.1	\$11,234.6	\$10,447.6
USES						
Personal Services - Employee Benefits	\$6,109.4	\$6,369.9	\$6,511.2	\$6,290.2	\$6,300.0	\$6,482.6
Contractual Services	\$2,005.9	\$3,370.9	\$3,267.7	\$3,397.7	\$3,090.7	\$2,873.2
Other	\$2,634.7	\$2,597.7	\$2,829.5	\$1,481.8	\$1,843.9	\$1,091.8
TOTAL USES	\$10,750.0	\$12,338.5	\$12,608.4	\$11,169.7	\$11,234.6	\$10,447.6

Source: TRD

Chronology of TRD's Tax Administration Software – GenTax

2002	TRD awards a contract to Fast Enterprises, LLC (FAST) to replace the Taxation and Revenue Information Management System (TRIMS) with the GenTax solution.
2002-2005	GenTax implementation of 24 tax programs completed.
2005-2006	Upgrade GenTax architecture and implementation of four tax programs associated with fuel taxes.
2006-2008	Implement the Taxpayer Access Point (TAP) system that allows read-only access for taxpayers to access their accounts on-line.
2007-2008	Upgrade GenTax Combined Reporting System (CRS) revenue accounting from version four to version six, including implementation of Collection Standalone functionality within GenTax and a Collection Outsourcing interface.
2008-2009	GenTax enhancement to implement Tax Increment Financing (Chapter 5 Article 15 NMSA 1978). The 2006 statute created a new revenue distribution within the Gross Receipts Tax.
2009-2010	Upgrade GenTax collections and bankruptcy modules.
2011-2012	On-going maintenance and support.
2012-2014	Upgrade GenTax from version six to version nine at a cost of \$6.2 million.
2012	TRD awards FAST a three-year \$3.9 million sole source contract for annual subscriptions, production support, enhancements, and maintenance, including access to service packs and new versions of GenTax.
2012-2013	Implement GenTax International Registration Plan and International Fuel Tax modules.
2014	TAP system enhancement, included in maintenance contract, allows taxpayer access to file, register and pay through electronic filing.
2015	TRD awards a four-year \$5.4 million sole source contract to FAST for enhanced maintenance.
2016	TRD awards a \$4.3 million sole source contract to FAST to integrate oil and gas severance tax into the existing GenTax infrastructure. Oil and gas severance tax processes were previously included in the Oil and Natural Gas Administration Revenue Database (ONGARD) system.
October 2016	Upgrade GenTax from version nine to version ten included in the scope of work of the enhanced maintenance contract.
2016-2017	GenTax upgrade to redesign and rebuild existing payment process data interfaces to leverage statewide file-type standards supported by SHARE Cash Remediation Phase II.
March 2018	TRD Severance Tax implementation complete; GenTax Service pack 10.2 complete included in scope of work for the enhanced maintenance and support contract.
April 2018	TRD initiates an advanced data analytics project, extracting data from GenTax into an external analytical tool.

Source: TRD and LFC Files



Although GenTax Software Upgrades Improved Some Functionality, System Process Improvements Are Still Needed

Since 2002, the state has spent almost \$29 million for GenTax implementation and upgrades.

As the state’s integrated tax administration system of record, GenTax includes the following functions:

- Processes tax returns and payments;
- Generates tax refunds;
- Supports tax audit and compliance efforts;
- Issues assessment letters for outstanding debt; and
- Calculates monthly distribution of tax revenues to the state and local governments.

Additional functionality in core and support areas are shown in Appendix C.

The last major upgrade, funded by Laws 2012, appropriated \$6.2 million for TRD to upgrade GenTax from version six to version nine (V9). One of the major reasons GenTax was three versions out of date was due to budgetary constraints. TRD had maintained minimal contract support for GenTax and now version upgrades are included in TRD’s annual maintenance and support contracts as the Legislature approved imbedding these costs into TRD’s base budget rather than as separate IT projects.

Table 2. Taxation and Revenue Department Summary of GenTax Project Appropriations

(in thousands)

Fiscal Year	Appropriation	Amount	Tax Administration Program (GenTax) Project Description
2004	TRIMS Replacement Funding	\$9,250.0	TRIMS Replacement
2005	TRD OpBud and DOT (\$1,000.0)	\$2,283.5	Upgrade and Fuel Taxes
2007	Laws 2006, Ch. 109, Sec. 7 (3)	\$1,000.0	Taxpayer Access Point (TAP)
2008	Laws 2007	\$341.6	Tax Increment Financing
2010	Laws 2009, Ch. 124, Sec. 7 (2)	\$1,182.5	Upgrade Bankruptcy and Collections module
2013	Laws 2012, Ch. 19, Sec. 7 (4)	\$6,230.0	Upgrade GenTax from Version 6 to Version 9
2013	Laws 2012, Ch. 19, Sec. 7 (5)	\$1,965.9	Fund balance from ONGARD Stabilization for TRD Severance Tax project
2014	Laws 2013, Ch. 227, Sec. 7 (4)	\$1,000.0	FY14 Enhanced Maintenance and Support
2017	Laws 2016, Ch. 11, Section 7 (7)	\$300.0	Payment Processing Interface
2017	Laws 2016, Ch. 11, Sec. 7 (5); Laws 2018, Sec. 7 (6) extended through FY19	\$5,000.0	ONGARD Replacement – Oil and Gas Severance Tax project
Total		\$28,553.5	

Source: LFC Files, General Appropriation Acts and Project Certification Committee Documents

GenTax upgrades in 2014 likely contributed to increased collections and operational efficiencies.

TRD implementation of GenTax version nine (V9) system upgrade was completed in three phases beginning in FY12 through FY14. At the time of the V9 upgrade some modules were obsolete, no longer supported and cumbersome to use and maintain. The upgrade included replacing the refund module, implementing the Taxpayer Offset Program (TOP), the Business Credit Manager (BCM) module and an integrated data warehouse module Discovery, and enhancing functionality.

In FY14, the upgrade to GenTax V9 resulted in increased annual revenue generation. For example, TRD realized \$20.5 million additional revenue, improving fraud detection and prevention with Discovery module. Also, TRD business process improvements include streamlining processes for multiple bureaus such as the automatic case assessments, automatic client account creation and electronic applications, which reduced labor intensive manual tracking. In addition, the V9 upgrade reduced false positive audit leads with the Discovery data warehouse, a single integrated system.

The GenTax upgrade to version 10 (V10) generally worked to improve functionality, but also resulted in problems with proper distribution of revenue.

TRD's implementation of GenTax V10 and the Taxpayer Access Point (TAP) upgrade, was included in the FY17 maintenance and support contract. Details of FAST's maintenance and support contract are discussed further in the next chapter. FAST and TRD completed the V10 upgrade in October 2016. The V10 upgrade included a new and improved interface design for internal users, taxpayers, and developers; a redesigned TAP website to be more intuitive, with links more visible, and making TAP compatible with mobile devices and tablets.

Shortly after the rollout of V10, during its reconciliation process, TRD's Financial Distribution Bureau (FDB) identified a variance for the November 2016 distribution cycle; however, after the distribution was made and the variance was reconciled, the distribution error resulted in approximately \$14.2 million in net incorrect distributions made to local governments. FDB staff created a solution request (SQR) in the FAST Central Repository (FCR) or GenTax workbench tool. TRD uses its SQR manager to log and track issues in GenTax, TAP, and other external systems affecting GenTax projects. All SQR activity history is maintained in FCR, showing who, what, when, where, and why of an issue. Developers use the information to research and resolve the issue.

On the technical side, while researching the SQR, TRD and FAST staff discovered a development process error that led to the incorrect revenue distribution to local governments in November 2016. TRD's procedures state the developer is responsible for documenting what happened, the impact, why it occurred, the solution, and steps of how to test the solution. Best practices include establishing test plans, defining roles and responsibilities, and success criteria. TRD's test plans follow best practices. In addition, to mitigate this risk, TRD and FAST have instituted a peer review process for GenTax developers to identify anomalies and improve quality assurance. By the December 2016 distribution cycle, this issue was corrected.

TRD's internal audit plan includes additional audits associated with the risks identified in the GenTax distribution process.

In FY16 and FY17, TRD met its performance measure targets for percent of internal audit recommendations implemented.

The department implemented comprehensive “pre-close” review processes to mitigate the risks of adjustments to gross receipts affecting local government distributions. FDB works closely with other process owners to analyze and review anomalies of returns and payments that could lead to adjustments to a local government’s distribution prior to the close of a revenue accounting period.

In May 2018, TRD initiated the process to improve revenue accounting by replacing the unsupported manual journal entry process with functionality in the GenTax Revenue General Ledger (GL) module. FAST will implement the GL module as part of the maintenance and support contract terms, with anticipated completion in December 2018. Currently 43 GenTax sites are using the GL functionality. However, on-going litigation with municipalities challenges the accuracy of gross receipt tax (GRT) revenue distributions. It is not clear whether this upgrade will ensure the accuracy of GRT distributions, leading to resolution of litigation.

TRD's Office of Internal Oversight (OIO) conducted several internal audits and special reviews tied to GenTax, resulting in internal control and process improvements, yet there is more work to be done. These audits revealed weakness in areas including GenTax distribution process, business tax credit management process, and lack of segregation of duties. TRD addressed the issues by implementing new policies, and procedures. For example, the Financial Distribution Bureau (FDB) participates in testing changes to gross receipts tax rate (GRT) and verifies the accuracy of the distribution. The GRT verification process in the GenTax test environment confirmed GenTax calculated the correct amount for the municipal disbursement. However, validation of the test scenarios used to verify tax rates will be included in a future internal audit.

Many of TRD’s internal audits identified the lack of segregation of duties as a major issue. TRD is currently undertaking a significant initiative associated with segregation of duties. Segregation of duties are a primary internal control intended to prevent or decrease the risk of errors or irregularities, identify problems, and ensure corrective action is taken. This is achieved by assuring no single individual has control over all phases of a business transaction.

TRD's September 2017 audit of the business tax credit management process reported unreliable data for tracking and reporting business tax credits. The report stated the Business Credit Manager (BCM) module does not include all tax credits and tracking credits is not reliable or efficient. Since the V10 upgrade, TRD initiated enhancements to the BCM module, which include 37 solution requests; 26 have been completed and 11 are currently in process. Those completed, for example, included additional data fields to capture business credits that were not previously included in the database. While TRD is also in the process of defining requirements for additional reporting capabilities and business credit reporting improvements, this capability is long overdue.

TRD reported every time a business tax credit is amended for something as simple as a name correction, it appears in the GenTax report as a separate duplicate tax credit claim. It is not clear if a solution request has been initiated to resolve this issue to provide reliable credit data to the public.

As a result of recommendations in the September 2017 audit, TRD requested the creation of a new unit dedicated to management of all business credits. As a result, the Legislature approved an expansion of \$394 thousand to establish the Business Tax Credit Bureau, which includes \$375 thousand for 5 FTE and \$19 thousand for other costs.

At a cost of \$6.7 million, TRD completed the Oil and Gas Severance Tax (OGST) project on time and budget.

To the citizens of New Mexico, the OGST project means revenue distributions will be updated more frequently, and less revenue will be suspended for data correction and completion. The OGST project included implementing the process of three tax programs – Oil and Gas Production, Ad Valorem Equipment, and Natural Gas Processor, from the Oil and Natural Gas Administration and Revenue Database (ONGARD) system to TRD’s existing GenTax and TAP system.

While the roll-out of severance taxes in GenTax was completed in March 2018, TRD planned for a stabilization period initially through the end of FY18. However, TRD needed additional time to complete the stabilization and other efforts in preparation for the State Land Office’s (SLO) royalty administration project. TRD plans to close-out the OGST project by the end of 2018.

TRD executive management and project managers monitored project status consistently and maintain appropriate project documentation.

TRD and FAST project management worked closely to review and resolve project issues on a timely and consistent basis. Following project management best practices, weekly project team meetings were held, and change management processes were appropriately followed. The most recent independent verification and validation (IV&V) assessment reported sound project management will ensure the success of the project and rated the status green.

OGST project team members at all levels, including senior management, business leads, and FAST technical staff focused on completion of critical tasks necessary to ensure the successful implementation of oil and gas severance tax programs in GenTax.

Improvements in the filing and amendment process provides increased accuracy and efficiency of severance tax collection and distribution.

Benefits also include frequently updated and more readily available oil and gas production and revenue data. Additional system controls allow TRD to better enforce business rules, such as screening electronic returns before they are accepted by the department, and allow TRD to leverage resources for program monitoring and taxpayer assistance. Taxpayers can now manage and view all related account activity through the TAP system with no lags in posting returns to the account. In addition, taxpayers will now be able to file amendments the following day, and a new report provides details for taxpayers on how payments are allocated.

**Table 3. Oil and Gas Severance Tax Project Costs
FY16 - FY19***
(in thousands)

Category	Actual Cost
Personnel & Employee Benefits	\$261.2
Contractual Services	\$6,125.8
Other	\$264.5
Total	\$6,651.5

Source: SHARE and TRD Project Status Reports
* FY19 estimated costs for stabilization and integration with SLO's royalty administration project

Table 4. ONGARD vs GenTax Comparison

ONGARD	GenTax
➤ Returns evaluated once per month	➤ Returns evaluate nightly
➤ Taxpayers submitted multi-period returns	➤ Taxpayers may amend the next day
➤ Taxpayer waited 30 days to amend the current period	➤ Notices are issued 10 days after returns are processed
➤ Notices were issued once per month	➤ Balances are updated daily
➤ Monthly accruals	➤ Daily accruals
➤ Multiple suspended tax detail lines	➤ Minimal to no suspended tax detail lines

Source: TRD Oil and Gas Severance Tax Bureau

TRD engaged in extensive outreach to the oil and gas industry, including industry meetings, delivering WebEx presentations, and taxpayer mailings. TRD’s all industry distribution list includes around 750 email addresses, representing approximately 500 organizations. TRD held industry focus groups from January through April 2017, obtaining input from state stakeholders and industry for technical specifications. The focus group consisted of representatives from small, medium, and large oil and gas companies and the largest third party filer.

TRD also provided several opportunities for training and industry testing including access to the system in a “sandbox” test environment for constituents to enter their data. Oil and Gas Severance Tax Bureau personnel provided continuous communication activities from August 2017 through June 2018. Currently, TRD’s website provides access to how-to videos, frequently asked questions (FAQs), and detailed instructions for oil and gas producers to complete required monthly reporting. See Appendix C for an example of the instructions.

However, it appears at least one large oil and gas producer has been reporting incorrect data, leading to large discrepancies in volumes reported by TRD and those reported by the Energy, Minerals, and Natural Resources Department. TRD recognizes the issue, is taking steps to rectify the problem, and plans to meet with the producer.

With the transition of premium tax collection to TRD from the Office of the Superintendent of Insurance (OSI), additional upgrades may be necessary. House Bill 223, (Laws 2018, Chapter 57), transfers responsibility for insurance premium tax collection from OSI to TRD. Insurance revenues distributed to the general fund were \$235 million in FY17, making the program one of the single largest tax programs in the state and representing nearly 4 percent of all general fund revenues. Therefore, it vital these revenues are collected and accounted for appropriately. As this is a new business tax for TRD to manage, careful development and additional capabilities may be required to successfully oversee the collection of these taxes, resulting in unknown additional upgrade costs.

Recommendations

The Taxation and Revenue Department should:

- Provide the Legislative Finance Committee an update on the status of its internal audits associated with the distribution process at its FY20 budget hearing; and
- Provide the Legislative Finance Committee an update on the status of the Business Credit Module initiatives, including reporting capabilities and implementation of the GenTax Revenue GL module at its FY20 budget hearing.

FAST Maintenance and Support Ensures TRD Has Access to New Versions of GenTax

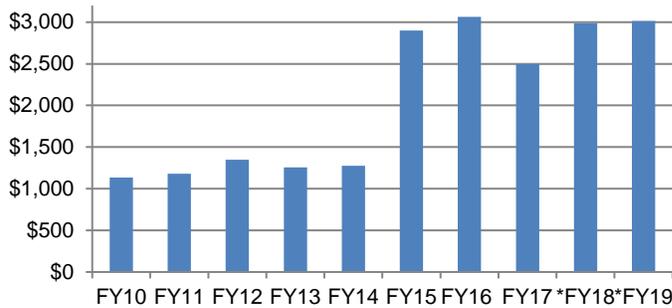
Industry best practices and the State of New Mexico’s experience demonstrate the necessity to stay current with the latest software version to maximize investment, mitigate additional costs of upgrade delays, and minimize potential security vulnerabilities.

Since FY15, maintenance and support cost average \$2.8 million per year.

In FY15, TRD increased its annual GenTax maintenance and support budget to \$3 million, or 156 percent since FY10. Following the V9 upgrade, TRD awarded an annual enhanced maintenance and support contract with FAST under a sole source procurement. TRD negotiated a fixed level of maintenance and support that includes production support, version upgrades, service packs, system enhancements, training, on-site personnel and phone support. Although the maintenance and support contract costs increase 1 percent per year, these on-going sole source contracts continue to be a concern.

New Mexico’s GenTax maintenance and support contract is comparable to most GenTax states.

Chart 1. GenTax Maintenance and Support Costs
(in thousands)



*FY18 and FY19 based on contract amount
Source: TRD and Sunshine Portal

Service packs which maintain the system current, are scheduled on a quarterly basis, but may be released more or less frequently. Since the V10 upgrade, FAST has implemented two service packs, with the third scheduled for November 2018. Service pack 10.3 will include mailing address validation and attribute improvements and the ability to capture and store name and address information from ACH payment data; see Appendix E for additional service pack 10.3 highlights.

Enhancement implementations vary depending on prioritized service requests (SQR). Since January 2018, FAST, in collaboration with TRD, completed 77 SQRs associated with production enhancements which included eight legislative changes. For example, the enactment of House Bill 536, (Laws 2017, Chapter 116), adds a voluntary contribution designated by the taxpayer on their personal income tax (PIT) return to the sexual assault examination kit processing grant fund. This required PIT form changes applicable to taxable years beginning on or after January 1, 2017, and ensuring the additional revenue distributions are made to the Department of Public Safety and Department of Health.

TRD and FAST are currently working on implementing changes to the Business Credit Module, improving its functionality, and implementation of the Revenue GL module, adding enhanced functionality to GenTax.

The FAST maintenance and support contract includes performance measures and deliverables to ensure vendor accountability, yet current practices are not completely aligned with contract provisions.

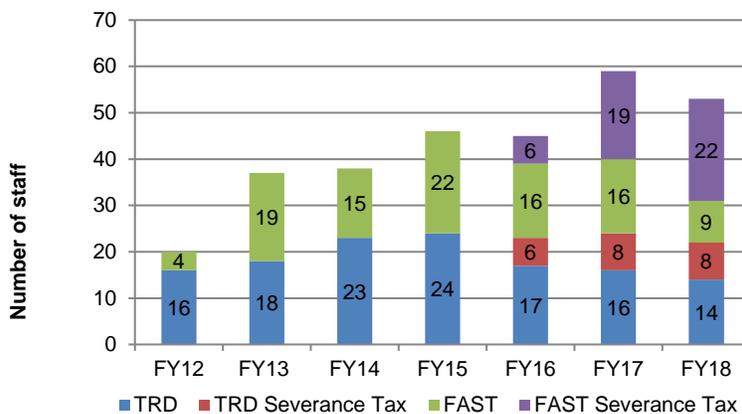
The contract states TRD will audit services provided quarterly to ensure FAST is performing satisfactorily in accordance with the agreement. Instead of a quarterly audit, TRD requires FAST to update all SQRs and other activities in FCR on an ongoing, daily basis. The GenTax bureau and other TRD staff monitor and test the SQRs regularly and obtain status as needed.

In addition, FAST is required to make available an online monthly report on activity and status of all logged requests. FAST’s executive status report provides a high-level summary of initiatives underway, indicating the percentage complete and the target date for completion. The report also includes production support activities and SQR highlights. This report and TRD’s monitoring activities provides some level of assurance the vendor’s activities are meeting contract requirements including TRD’s IT deliverable signoff sheet for invoice approval.

TRD’s GenTax Bureau has at least one major project under development and implemented since initial rollout in 2002 through FY18. For example, the bureau is primarily responsible for the development, testing, and implementation of changes in GenTax associated with the annual tax year rollout process. Each tax program requires resources to support required changes mandated by federal and state law, including those due to tax form modifications. All e-filing applications and system processing support for tax programs are also managed and implemented by the bureau. In addition, implementation coordinators, subject matter experts, and TRD project managers play key roles in verifying and confirming system functionality and agency readiness to ensure success of GenTax projects.

On-going collaboration between FAST and the GenTax Bureau has increased contractor staff to ensure required team members are available for major upgrade projects, such as the V9 upgrade, production support, implementation of new tax programs, and technical support when issues arise.

**Chart 2. TRD Staff and FAST Vendor Support
FY12 - FY18**



Source: TRD

Recommendations

The Taxation and Revenue Department should:

- Amend the maintenance and support contract to include FAST's Executive Status report as a contract deliverable; and
- Continue remaining current with upgrades and service packs as funding allows.

TRD Identified Deficiencies in GenTax Security Profiles and is Restructuring Application Security

To address business controls and associated security risks, TRD initiated an IT security re-engineering project in May 2018, with anticipated completion by November 2018.

Security is a huge topic and presents a host of challenges in protecting the confidentiality, availability, and integrity of TRD's data. TRD is focusing security re-engineering in four key areas – application security changes, segregation of duties documentation, roles and responsibilities documentation, and business system process analysis. GenTax user access is role-based, with approved access limited to the individual's job specific duties. Currently, configuration of security groups and assigning security groups to roles is in process.

In responding to recommendations in a 2016 internal audit, TRD implemented controls to ensure GenTax accounts are accessed for business purposes only. The Tax Fraud Investigation Division (TFID) is conducting monthly reviews of all TRD employees who access the GenTax system, including running reports on user tracking, reviewing customer access log, and the access denied-to list. TFID is currently linking newly hired employees and unlinking terminated TRD employees from the GenTax system from monthly reports provided by the State Personnel Office. TRD is also considering linking TRD employees to GenTax during the on-boarding process and unlinking to GenTax the day of termination. Failure to remove access timely increases the risk that inappropriate activity may occur.

TRD security awareness program is in line with best practices, but improvements are still needed. TRD hired a chief security officer (CSO) in FY15 as the IT security and compliance manager, to develop an independent security and risk management function, establish a security steering committee and implement a comprehensive set of information security policies and procedures based on industry standards. Not all security awareness programs are foolproof when changing behaviors in the work place. A recent example of a former TRD employee abusing GenTax access indicated there were flaws in security access roles and segregation of duties, emphasizing the need for improvements.

Currently the CSO reports to the Cabinet Secretary, and is the manager of the Office of Internal Oversight (OIO), established in FY16. OIO currently includes the internal audit function, training, and IT security operations (Appendix F). The current OIO organizational structure placement of internal audit does not provide adequate independence. Past LFC reports have flagged the lack of independence of internal audit functions across a number of state agencies. Internal audit should not report to the CSO. If internal audit reports functionally and administratively to the cabinet secretary, it would facilitate organizational independence and ensure objectivity in performing their work.

TRD has a documented information system access policy, including an established process for setting up user accounts.

Best practices indicate system owners should periodically review and confirm users' access rights to ensure they remain appropriate.

TRD is following best practices and is in compliance with administrative rule for scanning computing devices for vulnerabilities and weaknesses and at least annually.

Without a disaster recovery plan, TRD likely limits the agency's ability to recover data from its mission critical systems.

Protection of state agency's IT assets and capabilities should be the top of disaster recovery priorities.

While TRD has maintained the Internal Revenue Service (IRS) security training requirements, 14 percent, or 60 out of 444 employees with access to GenTax have not renewed the required annual training. IRS Office of Safeguards verifies TRD compliance with IRS requirements for federal tax information (FTI). IRS security guidelines require employees with access to FTI to complete its Disclosure and Safeguard Awareness Training annually for recertification purposes. In addition, six TRD staff with access to GenTax are overdue in taking TRD's required annual security awareness training.

TRD is aware of information technology security requirements and potential vulnerabilities, and has initiated corrective action. In the past year, TRD has completed a full network and application vulnerability scanning, and an IRS compliance security assessment. Additionally, TRD has engaged a third party to complete its annual security assessments. Security assessments are processes that proactively identify computer security vulnerabilities in operating systems and network components, evaluate security base line of systems, and assist to mitigate risks in a timely and effective manner. TRD has taken appropriate steps for remediation of vulnerabilities identified. Having an independent third party do security assessments is a check and balance to ensure checks and balances themselves are in place and are, in fact, working.

TRD does not have a formally documented comprehensive IT disaster recovery strategy or plan.

While TRD provided LFC staff its policy directing business continuity planning (BCP) and a disaster recovery (DR) program, the policy has not been formalized or implemented. The policy states BCP and DR plans will be developed, reviewed, maintained, and tested at least annually. TRD also has an approved BCP charter that supports planning and program guidance. TRD is heavily dependent on information technology to support its key business processes and as of this writing, the BCP is in draft and a DR plan does not exist.

Also, TRD's recent Internal Revenue Service (IRS) audits and FY17 financial audit state TRD lacks a formal DR plan, a repeat finding since FY13. In its management response to the FY17 financial audit, TRD stated it will develop a DR plan that includes an off-site facility and complete initial testing by June 30, 2018, and make a request for additional funds for the next budget year in order to develop a more thorough DR plan.

BCP refers to how a business should plan for continuing in case of disaster and disaster recovery refers to how IT should recover in case of disaster. IT business continuity and disaster recovery planning is the process of analyzing information system infrastructure, systems, applications, and processes, and developing a plan for resumption of these functions and elements in the event of a system interruption or disaster. This is important given TRD dependence on its mission critical IT systems and impact to the state and local government, businesses and the general public.

Having a disaster recovery plan for IT systems is not just about keeping computers and other hardware safe; it is also about protecting the agency's ability to provide customer service, to fulfill taxpayer needs, keep websites running, and perform any other business-critical task that is made possible by information technology.

TRD maintains its hardware and network in the Department of Information Technology's (DoIT) Simms Data Center, therefore relying on DoIT for disaster recovery. With the GenTax production infrastructure hosted at DoIT but not on the mainframe, TRD is dependent on DoIT to maintain processes, infrastructure and equipment. DoIT has the responsibility for disaster recovery of the mainframe, and the applications and data it hosts. DoIT is responsible for testing their plan regularly and including TRD in the process.

Two prior LFC program evaluations reported while DoIT has implemented its disaster recovery strategy for the mainframe and installed applications, a plan has not been formally documented and fully tested. DoIT's mainframe recovery strategy involves the use of a site at New Mexico State University (NMSU) Data Center in Las Cruces, New Mexico. All mainframe applications and systems data is being replicated to a mainframe at the NMSU disaster recovery site. The disaster recovery site is considered a warm site, as the mainframe there is powered but inactive. DoIT estimates less than one minute of data may be lost in its disaster recovery strategy. Yet as of this writing, DoIT's disaster recovery plan is not formally documented nor been fully tested. DoIT stated the mainframe disaster recovery plan would be documented and tested in early 2015, and then will be made available to state agencies. When requested, DoIT did not provide a status to LFC staff.

In addition, the IRS audit identified an issue for non-compliance, with the lack of service level agreements (SLAs) with DoIT. A SLA is a contract between a service provider and its customers that documents what services the provider will furnish and defines the performance standards the provider is obligated to meet. SLAs are essential for management and IT service delivery. LFC's 2016 program evaluation also reported DoIT's lack of SLAs with state agencies. SLAs between DoIT and agencies are needed for effective management, IT service delivery, communication, and to follow best practices.

TRD is in the process of completing a comprehensive business impact analysis, an essential component and first step in the business continuity and disaster recovery planning process. TRD recently sent out business impact analysis (BIA) questionnaires to business units, with eight out of 10 completed. TRD's Information Technology Division completed its BIA in August 2017, identifying mission essential functions and estimated impacts to the business and operations, including estimated recovery time frames. With GenTax being one of TRD's critical systems impacting the state's revenue stream, the need for a business impact analysis cannot be over emphasized.

It is not clear if TRD completed an overall risk assessment concurrently or prior to initiating the business impact analysis nor how TRD will determine priorities to minimize the impact on TRD business processes. Although BIA and risk assessments are both risk-based, they have different purposes. BIAs are the "what" is impacted and risk assessments are the "how" impacts occur.

Business impact analysis looks at the critical business functions and the impact of not having those functions available to the agency. It includes work flow analysis and an assessment and prioritization of the business functions and processes that must be recovered. It should identify the potential impact of non-specific disasters or disruptions on business functions and processes, as well as estimate allowable downtime and acceptable level of loss or recovery point objective. The financial impacts and operational impacts must be addressed as well as the estimated recovery time frame.

Restoring computer applications after a disaster or serious disruption requires advanced planning, coordination and testing.

With GenTax managing all state tax revenues, the need for a business impact analysis cannot be over emphasized.

Recommendations

The Taxation and Revenue Department should:

- Provide the Legislative Finance Committee an update on the security re-engineering project at its FY20 budget hearing;
- Realign the internal audit organization to directly report to the TRD Cabinet Secretary;
- Ensure all employees meet IRS and TRD IT security training requirements;
- Conduct a comprehensive business impact analysis and risk assessment to determine the requirements for the disaster recovery plan;
- Document findings of the comprehensive business impact analysis in the disaster recovery plan;
- Review and update the business impact analysis regularly to reflect significant changes to business operations and lessons learned during the testing process;
- Reference the risk assessment in the disaster recovery plan and document any high risk areas along with mitigation strategies;
- Develop a formal disaster recovery testing plan and conduct training and periodic testing at least annually;
- Include a list of key personnel who receive a copy of the plan;
- Document the DR plan revision history, ensuring personnel receiving the plan have the current version; and
- Review, update and distribute the disaster recovery and business continuity plan at least annually.

The Department of Information Technology should

- Document and test its mainframe disaster recovery plan and ensure once it has been documented and tested, that it be provided to TRD;
- Provide the disaster recovery plan to all state agencies using the state data center for hosting;
- Provide the Legislative Finance Committee an update on the status of its disaster recovery plan documentation and testing at its FY20 budget hearing; and
- Establish service level agreements with state agencies, its customers, in line with IT service management best practices guided by IT Infrastructure Library framework.

TRD's Data Analytics Initiative May Be a Costly Duplication of GenTax Capabilities

TRD's Audit and Compliance Division (ACD) data analytics team already use SAS tools along with GenTax Discovery to improve its audit selection process, identifying non-compliant taxpayers resulting in increased revenue streams.

To improve data analytic capabilities, TRD requested FY19 C2 funding of \$2.3 million for a two-year phased project leveraging GenTax capabilities. Laws 2018 appropriated \$1.1 million for the first year to implement advanced analytic tools.

TRD's business case emphasized GenTax already includes all the capabilities required for the project. GenTax integrated analytics capabilities are successfully being used by several other states including Colorado, Utah, Oregon, Idaho, Minnesota, and Georgia, and two countries, New Zealand and Jamaica. In addition, FAST Data Services is being used by at least 11 states for advanced fraud analytics, and access to external data sources that are fully integrated into the GenTax product allowing for efficient use of its data and predictive analytics.

In FY17, the GenTax Discovery data warehouse identified 7,415 noncompliant taxpayers totaling \$28 million in uncollected revenue. TRD accomplished this through audit and IRS matching programs of income sources for delinquent taxpayers. GenTax Discovery allows TRD to better facilitate the use of external data for increased productivity and increased revenue streams on the audit and compliance side, as well as increase efficiency and fraud prevention on the revenue and return processing side. As previously stated, the Discovery module was implemented in 2014 during the V9 upgrade.

Although GenTax analytic capabilities have a proven track record, TRD decided to extend its existing SAS platform and is in the process of awarding SAS a \$1.2 million contract under statewide price agreement for the project.

The final executed contract with SAS is in the signature process at the Department of Information Technology (DoIT). DoIT certified TRD's data analytic project for implementation in May 2018, allowing TRD to proceed with the procurement process. ACD stated the purpose of the project is to extend the SAS platform and implement a solution for the gross receipts tax (GRT) audit selection process, decrease protest and abatement adjustments, and improve collections. Project documentation shows existing GenTax data sources will be used and a new technical environment will have to be established. TRD's current estimated project cost of \$1.4 million exceeds the appropriation amount. Because TRD did not have adequate budget, it submitted a BAR transferring \$220 thousand from the personal services and employee benefits category to the other category to purchase required hardware for the SAS data analytic project. Additional costs to support the hardware and associated software will impact TRD's operating budget.

TRD is also responsible for installing the technical environment and preparing the existing GenTax data for the SAS tool. While the project directly impacts the GenTax bureau, the bureau was not included in the decision making process. Also, despite LFC staff request, TRD could not demonstrate it

TRD could not demonstrate it completed a cost benefit analysis for selecting SAS instead of leveraging GenTax capabilities.

completed a cost benefit analysis for selecting SAS instead of leveraging GenTax capabilities.

TRD's estimated completion date is July 2019, for data analytics project however total project costs are unclear. Project documentation indicates there is no budget for obtaining additional external data, training TRD staff, with total project costs unknown. In April 2018, FAST Data Services proposed a data analytics pilot project for \$900 thousand to be completed by November 2018. The pilot project proposal included user training, deployment of new analytic models, with a platform for expansion, and use of FAST Data Services data sources, including public records, commercially available and web-based data sources.

Also, TRD's planned FY20 C2 funding request includes \$1.2 million for new analytic models built using either FAST, SAS, or other tools as appropriate. Without knowing the project end date and results of the current SAS analytics project, it may be premature for the Legislature to consider appropriating additional funding.

Recommendations

The Taxation and Revenue Department should provide the Legislative Finance Committee

- An update on the data analytics project during its FY20 budget hearing; and
- Monthly project status reports for the duration of the project.



Susana Martinez
Governor

John Monforte
Acting Cabinet Secretary

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(505) 827-0369
Audit and Compliance
(505) 827-2727
Motor Vehicle
(505) 827-2296
Property Tax
(505) 827-0870
Revenue Processing
(505) 827-0800
Tax Fraud Investigation
(505) 841-5578

August 17, 2018

David Abbey
Director
Legislative Finance Committee
325 Don Gaspar, Suite 101
Santa Fe, NM 87501

**Response to LFC Evaluation of the GenTax Software System.
August 2018**

Thank you for the opportunity to review the program evaluation report. The Taxation and Revenue Department (TRD), recognizes and appreciates the time and effort given by the Legislative Finance Committee (LFC) Program Evaluator to this critical system of record utilized by TRD to administer taxes for the State of New Mexico. Please accept this as our formal response to the program evaluation report.

Our responses to the specific findings and recommendations are included below. With the exception of the last finding relating to data analytics, TRD is in agreement with the majority of findings listed in the report and thus only responded to the listed recommendations.

Although GenTax Software Upgrades Improved Some Functionality, System Process Improvements Are Still Needed

LFC Recommendation: The Taxation and Revenue Department should:

Provide the Legislative Finance Committee an update on the status of its internal audits associated with the distribution process at its FY20 budget hearing.

Response: Agree. TRD will provide the Legislative Finance Committee an update on the status of the distribution process internal audits at the FY20 budget hearing on December 10, 2018. Internal audit conducts the audit prioritization with the improvement of governance, risk management, and control processes as a primary focus. Internal audit will evaluate the auditable areas and make modifications throughout the year based upon changes to TRD’s risk profile. As stated in the report, Internal Audit identified several risks associated with the distribution

process, those risks will be evaluated and added to the plan as necessary. Internal Audit is currently working on the audit plan and plans to submit for approval in the first quarter of FY19.

Provide the Legislative Finance Committee an update on the status of the Business Credit Module initiatives, including reporting capabilities and implementation of the GenTax Revenue GL module at its FY20 budget hearing.

Response: Agree. TRD will provide the Legislative Finance Committee an update on the status of the Business Credit Module initiatives, including reporting capabilities and implementation of the GenTax Revenue GL module at its FY20 budget hearing on December 10, 2018.

FAST Maintenance and Support Ensures TRD Has Access to New Versions of GenTax

LFC Recommendation: The Taxation and Revenue Department should:

Amend the maintenance and support contract to include FAST's Executive Status report as a contract deliverable.

Response: Disagree. TRD will not be seeking any amendments to the FAST contract between now and the end of the administration. TRD will develop the contract verbiage to effectuate the recommendation during the next contract cycle. FAST and TRD have agreed on an additional monthly report tracking high-level progress and status in addition to the already established day-to-day tracking mechanisms.

Continue remaining current with upgrades and service packs as funding allows.

Response: Agree. TRD will continue to remain current with upgrades and service packs and appreciate the assistance in this endeavor from the legislature.

TRD Identified Deficiencies in GenTax Security Profiles and is Restructuring Application Security

LFC Recommendation: The Taxation and Revenue Department should:

Provide the Legislative Finance Committee an update on the security re-engineering project at its FY20 budget hearing.

Response: Agree. TRD will provide the Legislative Finance Committee an update on the security re-engineering project at its FY20 budget hearing on December 10, 2018. The Security reengineering effort is green and tracking for completion by December 31 as planned.

Realign the internal audit organization to directly report to the TRD Cabinet Secretary.

Response: Agree in part. TRD will realign the internal audit organization to directly report to the TRD Cabinet Secretary or the Deputy Secretary. This realignment will be completed by October 31, 2018.

Ensure all employees meet IRS and TRD IT security training.

Response: Agree. TRD will ensure all employees meet IRS and TRD IT security training requirements. This is a continuous process. TRD management will monitor and require all employee's complete agency Security Awareness training, IRS Disclosure Awareness training other required training annually prior to gaining access to any system of record.

Conduct a comprehensive business impact analysis and risk assessment to determine the requirements for the disaster recovery plan.

Response: Agree. TRD will document the findings of the comprehensive business impact analysis in the disaster recovery plan. TRD management has already approved and implemented a comprehensive business impact analysis (BIA). Completion has reached 80 percent. TRD management will implement an enterprise risk assessment process for TRD to address risk including for the disaster recovery plan by October 1, 2018.

Document findings of the comprehensive business impact analysis in the disaster recovery plan.

Response: Agree. TRD will review and update the business impact analysis regularly to reflect significant changes to business operations and lessons learned during the testing process. Identified findings from BIA will be utilized in the formulation of the TRD Disaster Recovery Plan. This will be completed by October 1, 2018.

Review and update the business impact analysis regularly to reflect significant changes to business operations and lessons learned during the testing process.

Response: Agree. TRD will reference the risk assessment in the disaster recovery plan and document any high risk areas along with mitigation strategies. TRD ITD has quality systems and backups/technology recovery processes in place. However, the recovery could be enhanced to further mitigate risk of a catastrophic impact. TRD will initiate a comprehensive data and technology DR planning effort with intent to include additional DR in the FY21 operating budget request where appropriate.

Reference the risk assessment in the disaster recovery plan and document any high risk areas along with mitigation strategies.

Response: Agree. TRD will develop a formal disaster recovery testing plan and conduct training and periodic testing at least annually. TRD will include a list of key personnel who receive a copy of the plan and identify these positions in policy. TRD will document DR plan revision history, ensuring personnel receiving the plan have the current version. TRD will review, update and distribute the disaster recovery and business continuity plan at least annually. TRD will update any applicable policy and procedure to identify this plan by October 1, 2018.

TRD management will implement a process to develop an enterprise wide annual risk assessment process and refer risk assessment in the DR plan and other interdependencies. Each TRD division will update their BIA annually including significant changes to business operations. TRD management will document lessons learned annually after rollout is complete. TRD management will implement a process for an annual review, update and distribution of BCP in June of each year. TRD will update any applicable policy and procedure to identify this plan by October 1, 2018.

Develop a formal disaster recovery testing plan and conduct training and periodic testing at least annually.

Response: Agree. TRD will develop a formal disaster recovery testing plan and conduct training and periodic testing at least annually. TRD will include a list of key personnel who receive a copy of the plan and identify these positions in policy. TRD will document DR plan revision history, ensuring personnel receiving the plan have the current version. TRD will review, update and distribute the disaster recovery and business continuity plan at least annually. TRD will update any applicable policy and procedure to identify this plan by October 1, 2018.

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distribution of BCP in June of each year. TRD will update any applicable policy and procedure to identify this plan by October 1, 2018.

Include a list of key personnel who receive a copy of the plan.

Response: Agree. TRD will develop a formal disaster recovery testing plan and conduct training and periodic testing at least annually. TRD will include a list of key personnel who receive a copy of the plan and identify these positions in policy. TRD will document DR plan revision history, ensuring personnel receiving the plan have the current version. TRD will review, update and distribute the disaster recovery and business continuity plan at least annually. TRD will update any applicable policy and procedure to identify this plan by October 1, 2018.

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Document the DR plan revision history, ensuring personnel receiving the plan have the current version.

Response: Agree. TRD will develop a formal disaster recovery testing plan and conduct training and periodic testing at least annually. TRD will include a list of key personnel who receive a copy of the plan and identify these positions in policy. TRD will document DR plan revision history, ensuring personnel receiving the plan have the current version. TRD will review, update and distribute the disaster recovery and business continuity plan at least annually. TRD will update any applicable policy and procedure to identify this plan by October 1, 2018.

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Review, update and distribute the disaster recovery and business continuity plan at least annually.

Response: Agree. TRD will develop a formal disaster recovery testing plan and conduct training and periodic testing at least annually. TRD will include a list of key personnel who receive a copy of the plan and identify these positions in policy. TRD will document DR plan revision history, ensuring personnel receiving the plan have the current version. TRD will review, update and distribute the disaster recovery and business continuity plan at least annually. TRD will update any applicable policy and procedure to identify this plan by October 1, 2018.

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TRD's Data Analytics Initiative May Be a Costly Duplication of GenTax Capabilities

The only section of the report that the TRD has broad disagreement with relates to data analytics. The assertion made in the report is that either TRD does not need the money for a project (it "May be a Costly Duplication of GenTax Capabilities") or that we should have chosen FAST for their data analytics functionality (FAST proposed a data analytics pilot for \$900 thousand as indicated in the report). TRD disagrees with either assertion.

The assertion that the data analytics project is a costly duplication of the current system is inaccurate and refuted by the facts within the report. The acknowledgement that FAST proposed a data analytics pilot at a cost that was reduced to \$900 thousand to conform to existing project funds denotes the magnitude of the project if TRD went in that direction. If New Mexico wants a robust data analytics platform used in the administration of taxes, it will cost time and money.

SAS is a leader in data analytics. That is what they do and what they are known for and this also applies to the use of data analytics in tax administration. For example, just a couple of weeks ago at the 2018 Federation of Tax Administrators Technology Conference, SAS was at the forefront of every data analytics discussion being on the Analytics panel and delivered the Data Mining for Dummies presentation. SAS provides a more robust and advanced data analytics tool. It provides a more streamlined data mining process and creates highly accurate predictive and descriptive models that will lead to more advanced audit selections. Moreover, there is a higher level of data analytics expertise within SAS to assist and discover unknown patterns and key relationships to identify variables of non-compliance. The GenTax Discovery manager has allowed ACD to conduct matching of various sources of data, for various tax programs, to perform basic audit selection. The GenTax Fraud Manager has allowed ACD to perform some analysis of Fraud for Personal Income Tax (PIT). The ability to perform analysis on these initiatives through assessment and collections is limited at this time.

TRD's business case emphasized Alternative 1 as GenTax enhancements for increased Fraud detection for PIT, including the FDS service. GenTax integrated analytics capabilities for Fraud Detection for PIT are being used by several other states however none of these states are using FDS for business tax fraud. PIT rules are comparable from state to state; however, business tax rules are very specific to each state. After review of several products per Alternatives 1- 3 in the original business case, TRD participated in a formalized review of analytics objectives using Gartner Analysts in April to identify the current needs of the Data Analytics project. Enhanced audit Selection was identified as the prime candidate for the first year of the project.

Several states have identified that the Fraud has decreased significantly in the PIT realm and has moved into business taxes. TRD has shifted focus to build models that may predict compliance, provide audit selection and detect fraud in these business sectors. The SaS Fraud Framework was chosen to analyze several years of business income tax data to identify the areas of revenue gaps for business taxes, primarily GRT, using advance analytics with embedded artificial intelligence and machine learning to assist in Fraud detection and prevention. Historically ACD has been slow to react to Fraud schemes with the limited amount of data and our ability to promptly respond to Fraud trends.

Finally, TRD determined that the PIT enhancements using FDS would not provide as large of revenue enhancements as a more advanced solution for Gross Receipts Tax (GRT) would. An ancillary benefit of SaS Fraud Framework may be improvements in our ability to predict revenue distributions for GRT by identifying trends of non-compliance. Due to receiving partial funding in the first year TRD was faced with choosing a solution that would provide short term return by increasing compliance by enhancing audit selection and decreasing fraud. A second business case was submitted for FY20 for additional funds to include an expansion of these capabilities and the ability to include other vendors in the second year.

LFC Recommendation: The Taxation and Revenue Department should provide the Legislative Finance Committee:

An update on the data analytics project during its FY20 budget hearing.

Response: Agree. TRD will provide LFC an update on the data analytics project during its FY20 budget hearing on December 10, 2018.

Monthly project status reports for the duration of the project.

Response: Agree. TRD will provide LFC with monthly project status reports for the duration of the project.

Sincerely,

John Monforte 08/17/2018

Acting Secretary
Taxation and Revenue Department



Appendix A: Evaluation Scope and Methodology

Evaluation Objectives.

- Determine the impact of GenTax upgrades to TRD's processes,
- Determine the status of GenTax maintenance and support, and
- Assess GenTax security access controls.

Scope and Methodology.

- Reviewed:
 - Applicable laws and regulations
 - LFC file documents
 - Other states performance evaluations or audits of GenTax
 - Information obtained from outside sources, including Internet searches
 - Agency policies and procedures, including IT security
 - Agency audits, including financial, IT security and security assessments
 - Agency GenTax contracts with Fast Enterprises
 - Agency GenTax requirements documents for upgrades and enhancements associated statutory changes
 - Available project certification committee (PCC) documents for GenTax projects
 - Available independent verification and validation (IV&V) reports
- Determine other states' best practices for GenTax upgrades, maintenance and support.
- Conducted interviews with TRD staff including:
 - key business process personnel relevant to revenue processing, distributions and financial reporting
 - key technical support relevant to the GenTax application
 - TRD IT project management

Evaluation Team.

Brenda Fresquez, Program Evaluator

Authority for Evaluation. LFC is authorized under the provisions of Section 2-5-3 NMSA 1978 to examine laws governing the finances and operations of departments, agencies, and institutions of New Mexico and all of its political subdivisions; the effects of laws on the proper functioning of these governmental units; and the policies and costs. LFC is also authorized to make recommendations for change to the Legislature. In furtherance of its statutory responsibility, LFC may conduct inquiries into specific transactions affecting the operating policies and cost of governmental units and their compliance with state laws.

Exit Conferences. The contents of this report were discussed with the Acting Secretary of the Taxation and Revenue Department and his staff on August 17, 2018.

Report Distribution. This report is intended for the information of the Office of the Governor, Department of Finance and Administration, Office of the State Auditor, and the Legislative Finance Committee. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Appendix B: State Tax Programs in GenTax

TAX PROGRAMS RESIDING IN GENTAX

911	E911 Services Surcharge
AFD	Alternative Fuels Excise Tax
BRT	Bingo and Raffle Tax
CFT	Combined Fuels Tax
CIG	Cigarette Tax
CIT	Corporate Income Tax
CNS	Conservation Tax
CRS	Combined Reporting System
DBS	Daily Bed Surcharge (inactive)
FID	Fiduciary Income Tax
GMD	Gaming MFG and Distributor Tax
GMO	Gaming Operator Tax
H2O	Water Conservation Fee
IFTA	International Fuel Tax
IRP	International Registration Plan
LIQ	Liquor Excise Tax
LLQ	Local Liquor Excise Tax
OGP	Oil and Gas Proceeds
OGT	Oil and Gas Severance
PIT	Personal Income Tax
PRC	Private Railroad Car Tax
PTW	Pass Through Withholding
RES	Hard Mineral Resources Excise Tax
SEV	Hard Mineral Severance Tax
TPT	Tobacco Products Tax
TRS	Telecommunications Relay Service Surcharge
UEF	Uninsured Employment Fund
WDT	Weight Distance Tax
WKC	Workers' Compensation Fee

Source: TRD

Appendix C: GenTax Functionality

GenTax Functionality

CORE FUNCTIONS
Taxpayer Registration
Transactions, Taxpayer Accounting, Revenue Accounting, General Ledger and Distributions
Billing, Payments, Credit Management
Financial Adjustments, Business Credit Management, Intercepts and Offset Processing
Discovery, Fraud Management, Audit Case Management
Collections, Compliance Enforcement, Non-filer Identification
SUPPORT FUNCTIONS
Application Security and Profile Management
Customer Relationship Management, Partner Relationship Management (3 rd Party Reporting Agents)
Workflow, Case and Task Management
Imaging and Document Management
e-Services and Mobility Services
Mail and Reporting
Learning Management
Gateway, Interface Management and Web Services

Source: TRD and FAST Enterprises

Appendix D: Oil and Gas Taxes Detail Report Instructions

ACD-31114
12/2017

STATE OF NEW MEXICO TAXATION AND REVENUE DEPARTMENT
P.O. Box 2308 Santa Fe, NM 87504-2308

OIL & GAS TAXES DETAIL REPORT INSTRUCTIONS (FORM) ACD-31114



In addition to the summary form ACD-31113, a separate Form ACD-31114, Oil & Gas Detail Report must be filed for each sales month.

In the center of the form indicate the page number of this form as Page ___ of ___ pages; next identify the sales month and year being reported on this page. Numbering of pages in sequential order is critical for processing of the data to the taxpayer.

On the left side of the form, enter your company's name. Enter the Tax Identification Number, Social Security Number (FEIN, SSN, or ITIN) and/or enter the Oil and Gas Reporting/ Identification (OGRID) or account ID. The report should indicate total accurate information to report, for individual sales month.

Report the activity of each production unit/suffix on a separate line on the Form(s) ACD-31114 for the appropriate sales month.

COLUMN INSTRUCTIONS

Legacy PUN - Enter the seven digit legacy production unit number prior to January 2018 sales month being reported for each line on the form.

OCD Property ID - Enter the six digit number issued by the Oil Conservation Division (OCD) associated with the API Well.

OCD Pool ID - Enter the five digit number issued by the OCD associated with the API Well.

Agreement # - Enter the agreement number associated with the communitization or unitization associated with the API Well.

Suffix - Enter the suffix identification for the production unit number being reported for each line on the form.

Land Type - Enter the applicable land type (P, F, I or S).

P: Private/ Fee Land
F: Federal Land
I: Indian Land
S: State Land

Product Code - Enter the appropriate code for the product being reported which was produced by the production unit during the sales month. Product codes are:

- 01: Oil (BBLs)
- 02: Condensate (BBLs)
- 03: Processed (Residue) Natural Gas (MCF)
- 04: Unprocessed (Wet) Natural Gas (MCF)
- 05: Pit, Skim and Slop Oil (BBLs)
- 07: Gas Plant Products (Equivalent MCF)
- 08: Helium (MCF)
- 14: Oil, Lost (BBLs)
- 16: Gas, Lost-Flared or Vented (MCF)
- 17: Carbon Dioxide Gas (MCF)

Special Rate Code - A numeric, two digit code unique to a reported line most often related to specific legislation. Examples include: The Enhanced Oil Recovery Act and the Natural Gas and Crude Oil Production Act. If you have not received authorization to use a special tax rate code, please leave the column blank.

In-Kind (Royalty) - Enter a checkmark (indicates no royalty deduction will be allowed on the tax detail line).

Volume - Enter the volume of the product served and sold by the production unit/suffix during the sales month which is being reported on each line of the Form ACD-31114. When reporting oil or condensate, report to the nearest whole barrel of production. When reporting gas or gas products report to the nearest MCF at 15.025 P.S.I.A do not enter decimals or commas in the field.

Gross Value - Enter the gross value for the products being reported on each line.

Transp. Deduction - Enter the allowable cost associated and realized with the movement of the product by an affiliate, third-party transporter or pass-throughs from the buyer/ marketer.

Processing Deduction - Enter the allowable cost associated and realized with the processing of natural gas. Associated cost includes processing by an affiliate, third-party processor or pass-throughs from the buyer/marketer. No Processing costs should be associated with percentages of proceeds contracts.

Royalty Deduction - Enter the amount of royalty paid or due to the United States, the State of New Mexico or an Indian Tribe, Nation or Pueblo that is a ward of the United States. Royalty deductions should only be claimed on suffixes identified by land types "F" for federal land, "S" for state land, or "I" for Indian land.

Taxable Value - Calculate and enter (Gross value less the allowable deductions (transportation, processing, and/or royalties paid to the state, Federal or Indian Governments)).

Tax Due - To determine the combined amount of tax due, multiply the taxable value by the combined tax rate amount for the suffix and product code.

Intgovt Credit - Enter 75% of the lesser of the aggregate amount of oil and gas severance tax, the oil and gas conservation tax, the oil and gas emergency school tax and the oil and gas ad valorem production tax imposed by this state upon the products severed from qualifying wells or upon the privilege of severing products from qualifying wells located on Indian tribal land.

Jicarilla Credit - Enter seven tenths of one percent (.007) of the taxable value for the products severed from qualifying wells located on Jicarilla Apache tribal land.

Net Tax Due - tax due less the Intgovt and/or Jicarilla credit

The following columns are for taxpayer use and applicable to amended returns:

Previous Tax Paid – Enter the previous tax paid

Amended Tax Due – Enter the new tax due

Page Total - Add up the columns to derive the page totals; transfer the page total to line 5 of the Oil and Gas Taxes Summary Report form ACD-31113

Note: if more than one form ACD-31114 was completed to report Oil and Gas tax detail; sum up the page totals and enter on line 5 of the ACD-31113, Oil and Gas Taxes Summary Report.

Amending Previously Filed Report

If you are submitting a series of amendments for multiple sales months, a separate Form ACD-31113, Oil & Gas Tax Summary Report and ACD-31114, Oil & Gas Tax Detail Report must be submitted for each sales month for which amendments are being made.

All amendments must adhere to the following requirements:

For sales months reported prior to January 2018 sales period, amend using Legacy PUN etc.

For sales months reported January 2018 and forward, amend using Property ID, Pool ID, and Agreement Number etc.

Failure to properly amend your return may result in an incorrect report and may generate a notice of assessment and/or credit.

Mail or deliver the completed form to:

New Mexico Taxation and Revenue Department
Oil and Gas Severance Tax Bureau
P.O. Box 2308
1200 South St. Francis Drive
Santa Fe, NM 87504-2308

Appendix E: GenTax Service Pack 10.3 Highlights

GenTax Service Pack 10.3 Highlights

Address validation and attribute (residential vs. business address) improvements
Ability to track Business Credit Manager changes made during an audit
Revenue Upgrade (revenue calculation configuration and code) required for November close
Learning Manager
Improved mail filtering and search
Credit Card Transition
Core GenTax 1099 Processing
Abatement Case and Workflow
Security Case and Workflow

Source: TRD and FAST Enterprises

Appendix F: Office of Internal Oversight Organization Chart

TRD Office of Internal Oversight Current Organization Chart with Position Number 6/29/2018

