

Oregon Public Employees Retirement System

2017-19 Governor's Budget

Phase II Presentation

**Joint Ways & Means Committee
General Government Subcommittee**

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Presentation Overview

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- Disaster Recovery and Business Continuity Project Updates
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- Fiscal Impacts of 2017 Legislation

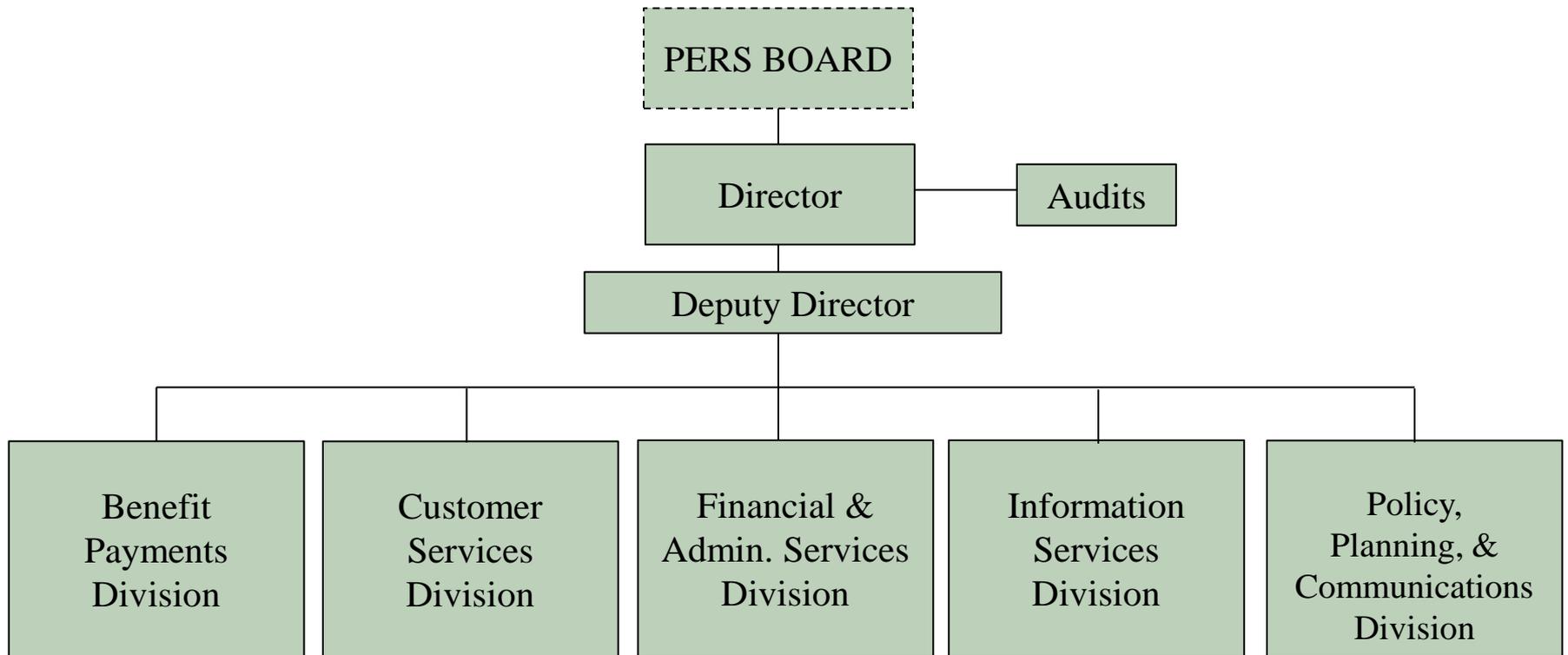
Agency Reorganization

Establishing the PERS Outcome Based Management System showed that accountability for defined outcomes and processes was not clear. A principled review of the agency's organizational structure revealed several structural weaknesses that could be improved to provide more effective service to members and clarity to staff regarding duties and expected outcomes.

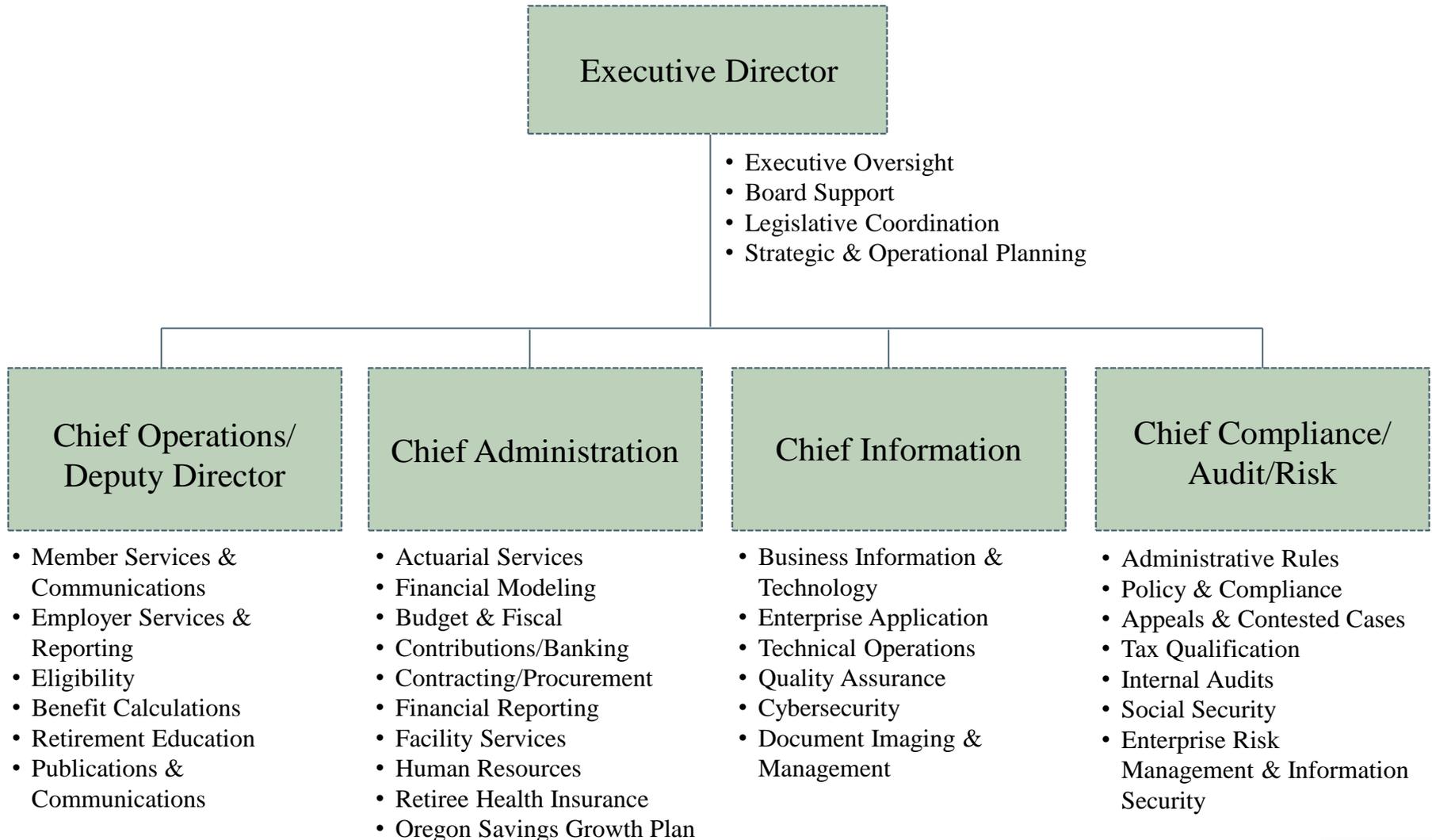
Agency staff and management were engaged to reflect on changes that support the following principles:

- Partnerships – engage with agency, members, and employers for better relationships and to use data to drive change
- Process – promote innovation and simplicity with flexible allocation of resources and by consolidating business functions
- Communication – set clear expectations and share consistent information at the right time
- Authority and Accountability – support problem solving and effective case management with decision making close to the point-of-service

2015-17 LAB Organizational Chart



Revised Organizational Chart



Progress Towards Agency Reorganization

A new agency organizational structure was developed and submitted to the DAS Chief Financial Office (CFO) and Legislative Fiscal Office (LFO); their acknowledgement was issued June 30, 2016.

The next phase was to align position classifications to these new roles. DAS' Chief Human Resource Office advised that classification review should begin with the Executive Director position. That review process resulted in an increase in classification from a Principal Executive/Manager (PE/M) H to a PE/M I (one class short of the top classification in that series).

With the Executive Director classification resolved, we are putting together classification and permanent funding requests to align with the new organizational structure. Those items should be submitted for review before June 2017.

Information Security – An Agency Priority

Information Security is a Core Operating Principle for PERS. PERS is a “target-rich” environment with personal, transactional, and employment data, on our members, their family members, and other close associates. PERS, over the years, has conducted or contracted for a variety of information security risk assessments and audits. Constant vigilance in protecting member information has driven us to periodically assess how well those efforts continue to match industry best practices. Our most recent assessment was conducted in December 2015, with a report issued in February 2016.

With approval of Senate Bill 1538 (2016), PERS was directed to provide that assessment to the State CIO. In April 2016, we received a joint memo from the State CIO and LFO that detailed action steps that they required to bolster our information security protections. The memo outlined 16 activities to be completed before the end of the 2015-17 biennium. Complying with that directive became a top priority and many resources were redirected to planning and executing on those activities.

Information Security – (continued)

In collaboration and engagement with the State CIO's staff, PERS procured a vendor, HP Enterprise Services, to assist with execution of these 16 activities in the 2015-17 biennium. The September 2016 Emergency Board approved PERS' request to increase its Other Funds limitation by \$381,074 to fund PERS' contract with HP Enterprise Services, who has assisted the agency in executing the activities we were directed to accomplish.

These remediation and planning activities also helped shape the agency's 2017-19 agency request budget (ref. Policy Package 101, discussed later). Also, Executive Order 16-13, issued September 13, 2016, centralized technology services and training for information security in the State CIO's office.

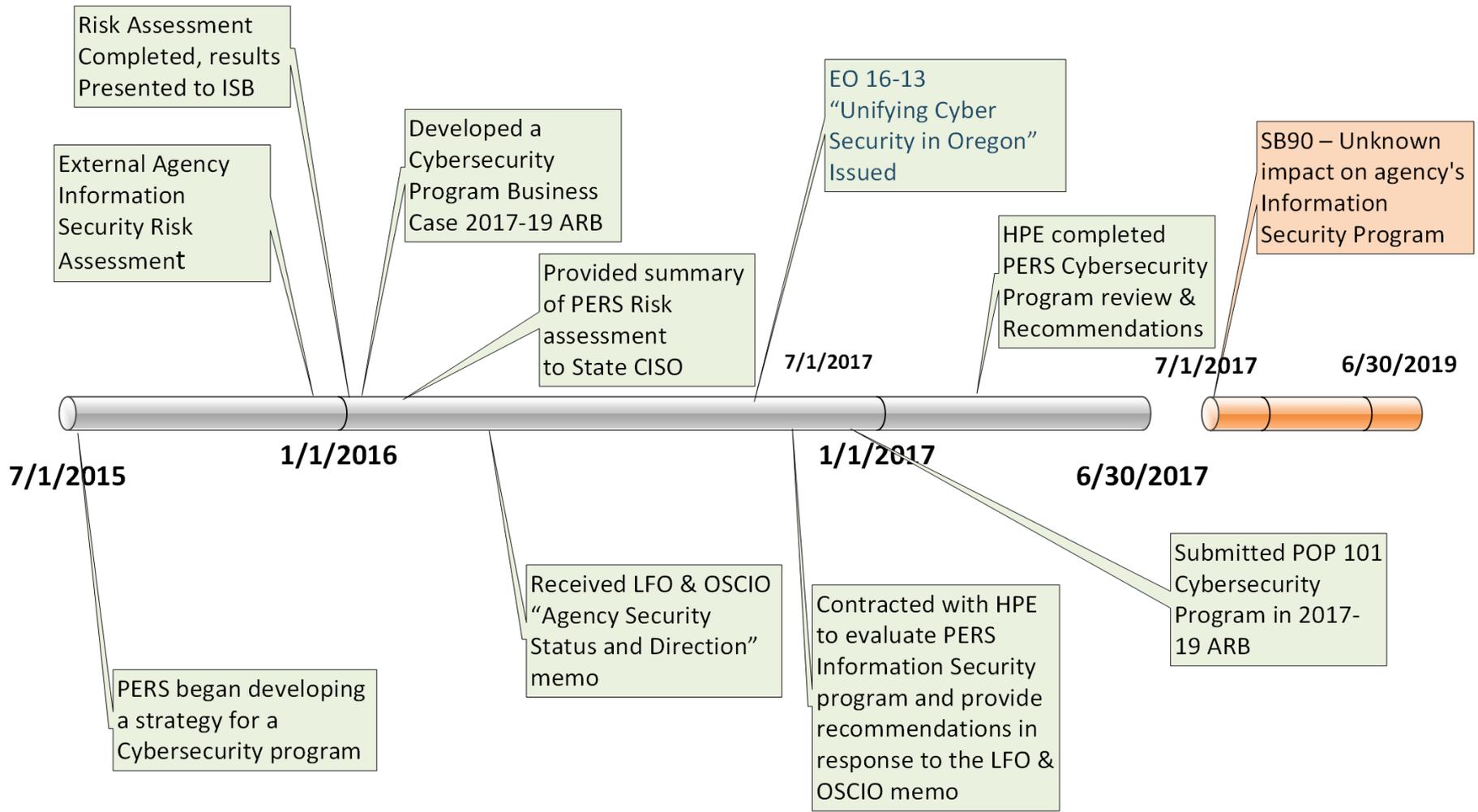
As PERS embarked on its earlier assessment and remediation activities, we received assurances from the State CIO's office that we should continue our efforts to accomplish the activities that they directed. Once the centralized service catalogue and structure from Executive Order 16-13 are implemented, PERS will integrate into that structure for the complimentary services provided to augment its own Information Security Program.

Information Security – Timeline

The table below shows the project deliverables and timelines; all items are on schedule and PERS will complete its activities in this biennium as directed.

	<u>Due Date</u>
PERS Information Security Program Plan – identifies resources required to execute ongoing information security program.	9/30/2016
PERS Information Security Staffing Plan – includes an organization plan with roles, responsibilities, and reporting structure.	10/31/2016
Task Set 1 of PERS Information Security Remediation Project Plan – Provide improvements for current Information Security technical controls; improvements for network security architecture; and removal, isolation or compensating controls for systems no longer supported.	10/31/2016
Task Set 2 of PERS Information Security Remediation Project Plan – Review existing software development security deficiencies and provide access control and authentication procedures.	11/30/2016
Task Set 3 of PERS Information Security Remediation Project Plan – Provide log management and security incident monitoring; formal recommendation on the IAP Administrative Project Security Plan; and provide endpoint security configuration and tools.	12/31/2016
Task Set 4 of PERS Information Security Remediation Project Plan – Provide formal recommendation on all Information Security related statues, rules and policies to ensure PERS compliance and validation report.	1/31/2017
Task Set 5 of PERS Information Security Remediation Project Plan – formal recommendation on Information Security policies and procedures and updated Information Security Incident Management Plan.	2/28/2017
Complete all remaining tasks for PERS Information Security Remediation Project Plan, including a document that describes initial and ongoing estimated costs of the PERS Information Security Program.	3/31/2017
Provide Information Security End User Training Roadmap and Project Closeout.	4/30/2017

History of PERS' Cybersecurity Program Timeline



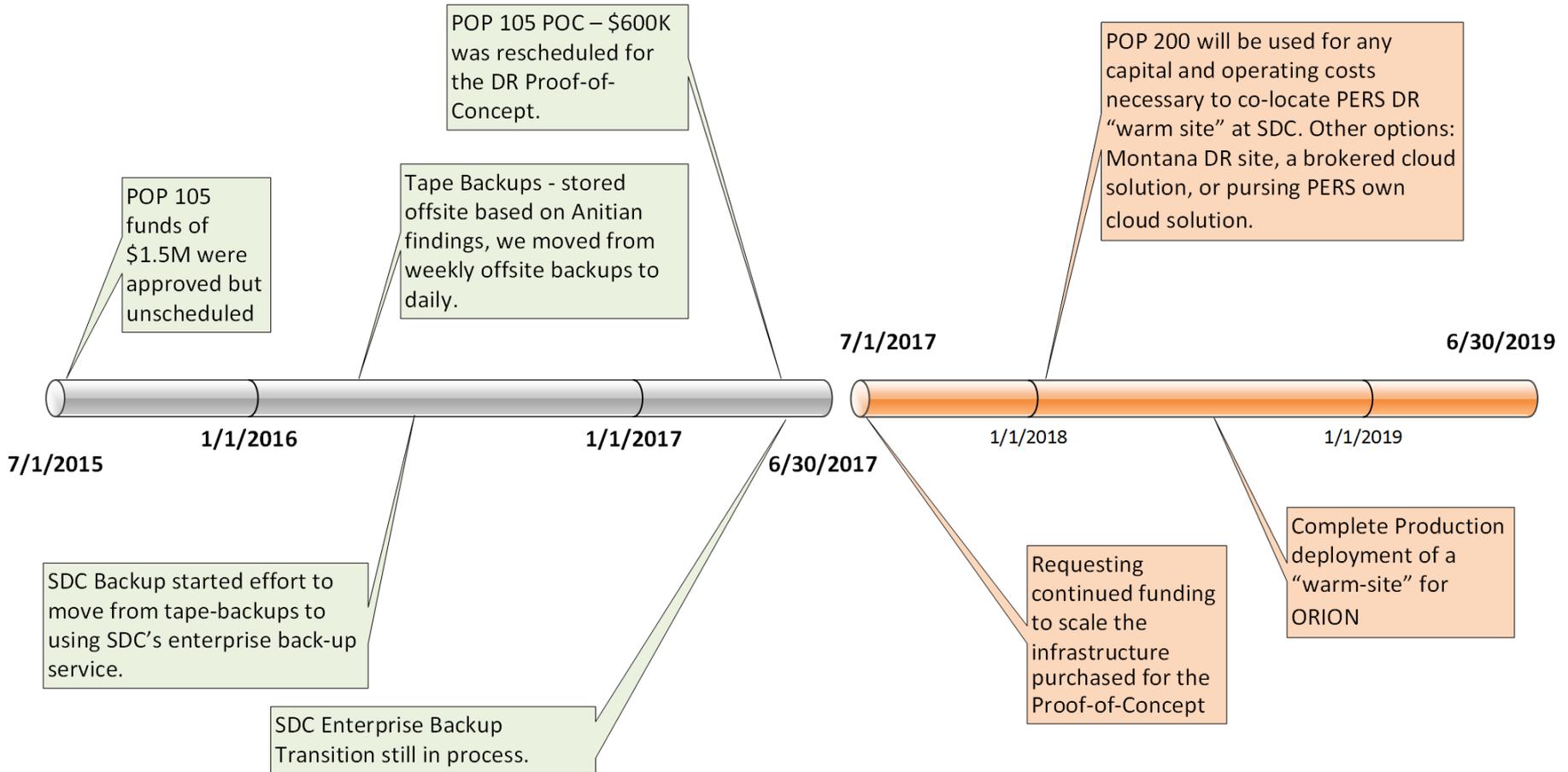
Disaster Recovery and Business Continuity Planning

The agency's budget, as adopted in House Bill 5034 (2015), included Policy Package 105, a request for \$1,581,200 to support the agency's efforts toward disaster recovery and business continuity. Funding was approved but unscheduled pending agreement among CFO, LFO, and OSCIO.

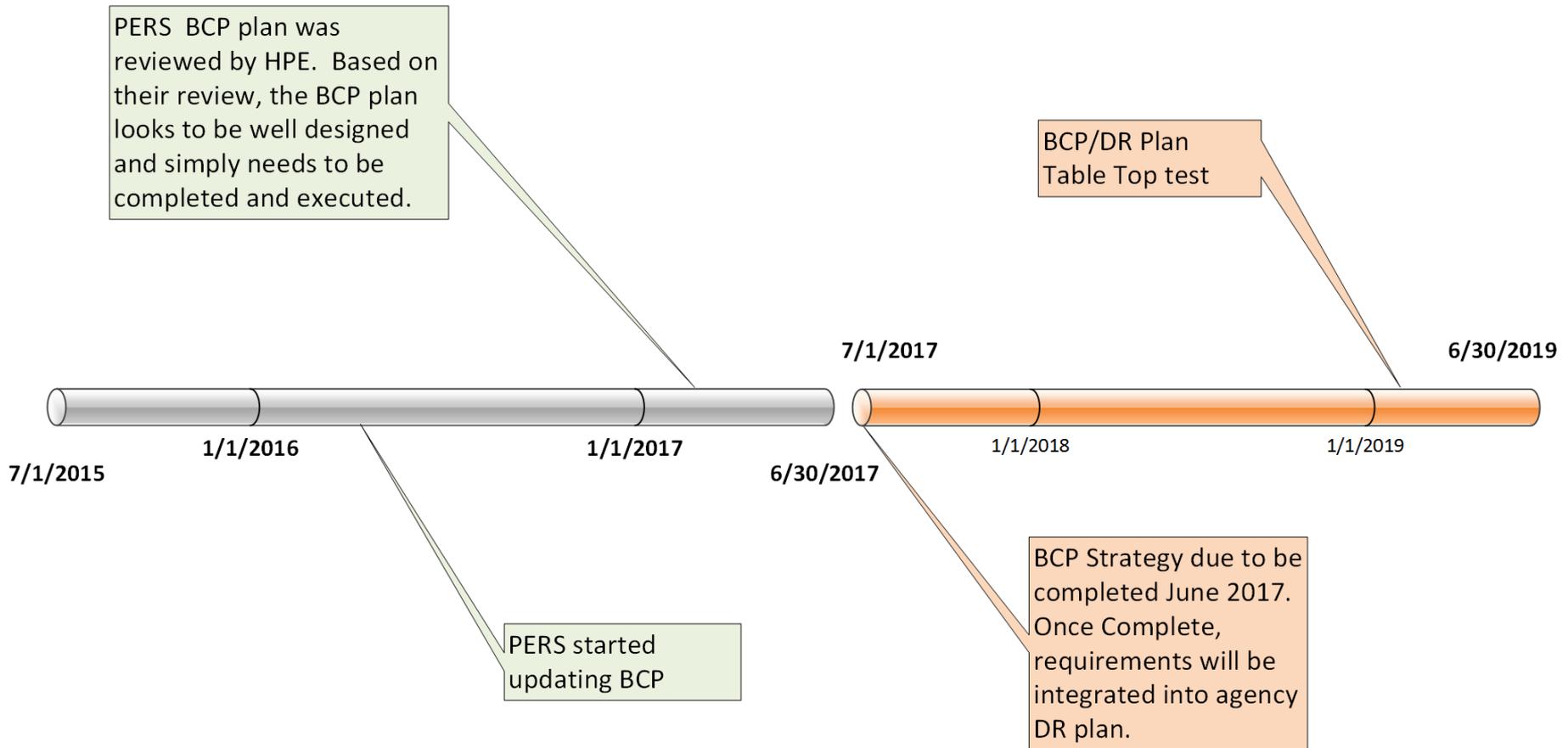
A budget note in House Bill 5034 (2015) directed PERS to review and assess the current state of its disaster recovery and business continuity environment, including the current state of plans, and develop a prioritized action plan to correct deficiencies. These results were reported to the Joint Committee on Information Management and Technology on February 12, 2016.

Since that time, PERS has worked with CFO, LFO, and OSCIO to further develop the disaster recovery/business continuity program structure and seek scheduling of funds for implementation. Those efforts resulted in the scheduling of only \$600,000 of the approved 2015-17 funds in April 2017, leaving insufficient time in this biennium to complete all the contemplated tasks that were to be funded under POP 105.

Disaster Recovery Strategy and Timeline



Business Continuity Strategy and Timeline



Data Center Migration

When the State Data Center (SDC) was being developed, PERS was in the midst of its RIMS Conversion Project (RCP) from 2004-2011. RCP was launched after the 2003 PERS Reforms; the agency's data systems had to be upgraded to support the additional programs and plan complexity that the reforms created.

While there was some conversation about the possibility of hosting PERS in SDC, we were directed to include an independent data center (located at PERS headquarters in Tigard) in RCP planning and execution. A robust and industry-standard data center was set up to support PERS operations as part of RCP and continues to this day.

During the 2015-17 Legislative Session, PERS brought forth a budget request to implement a Disaster Recovery strategy (POP 105). That request was approved by the Legislature but the funding remained unscheduled pending authorization by LFO, DAS CFO, and OSCIO. One element of that review included a feasibility study on migrating the PERS data center to SDC.

Data Center Migration (continued)

The April 7, 2016 memo from Alex Petit, State CIO, and Ken Rocco, LFO, regarding PERS' information security efforts included the following as its first directive: "Work collaboratively with State Data Center engineers and Enterprise Security Office (ESO) staff to conduct a comprehensive State Data Center use analysis (as a result of the prioritized security planning efforts)." PERS engaged its OSCIO State Technology Officer, along with SDC and ESO staff, to conduct this review; the following strategies have emerged as the consensus approach:

- Some services, such as back-up of the PERS data center, can be provided by SDC; fully migrating those services remains a work in progress.
- DAS inserted POP 200 in the agency's 2017-19 Governor's Budget to support further discussions of facilitating PERS' disaster recovery and business continuity efforts through some SDC services (e.g, hosting a "warm site" at SDC in Salem, SDC's backup site in Montana, or the cloud).
- A full data center migration could only occur after PERS' Oregon Retirement Information Online Network (ORION) is modernized; i.e., decoupling the middleware from a number of applications including jClarety, PERS' core administration system; this is a multi-biennium effort supported in the next budget cycle by the agency's POP 103, Business Modernization.

Policy Packages Summary – 102 IAP Administration

Policy Package 102: Fully Integrate IAP Administration into PERS' Oregon Retirement Information Online Network (ORION) System (Phase III)

PERS requested \$2,757,595 Other Funds limitation and establishment of three new full-time limited-duration positions (3.00 FTE) in the Information Services Division. This proposal completes the transfer to PERS of all aspects of the Individual Account Program (IAP) administration by December 15, 2018, and eliminates over \$2.2 million in annual costs for an outside third-party administrator (TPA). The split administration between PERS and the TPA creates fundamental, structural problems (handoffs between PERS and the TPA, redundant staff work, and constant reconciliation of records between the two systems) which lead to lengthy processing time and occasional errors.

PERS currently administers major components of the IAP, and this proposal leverages the agency's current recordkeeping and payment processing systems to eliminate these inherent problems from split administration.

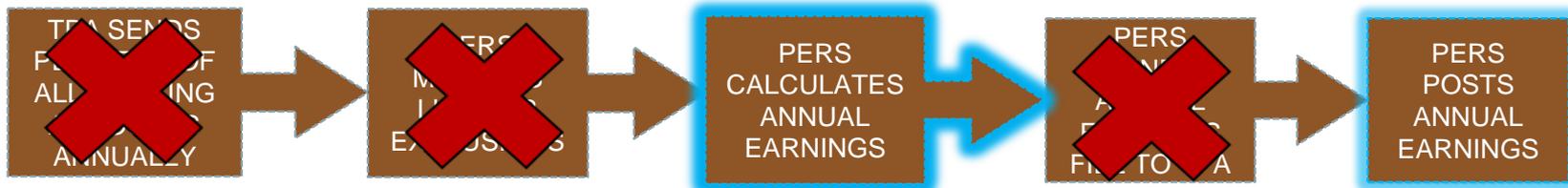
Eliminating the TPA will enhance PERS' ability to better execute its mission to "pay the right person the right benefit at the right time."

Policy Packages Summary – (102 continued)

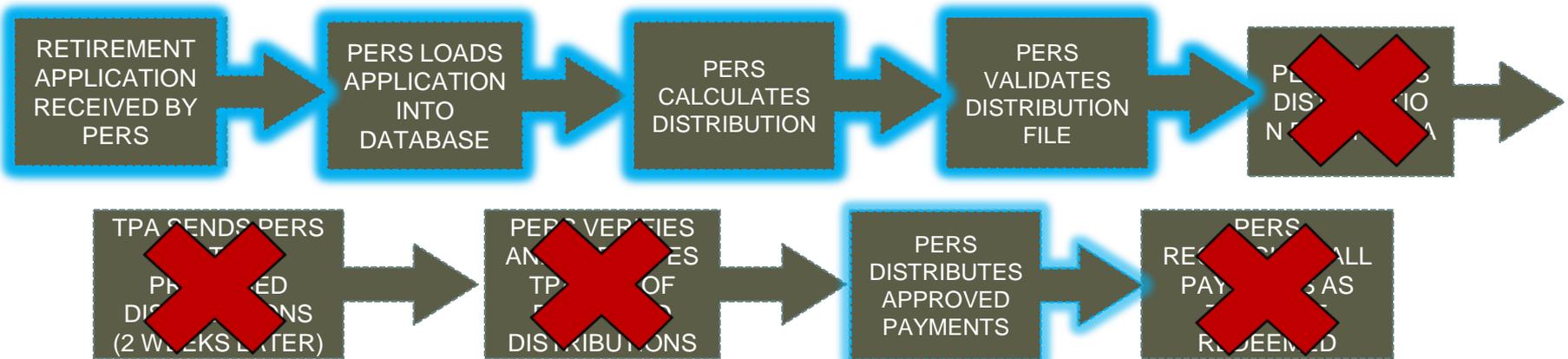
Contribution Reporting Activities - Ongoing



Earnings Activities - Annually



Distribution Activities - Daily



Policy Packages Summary – (102 continued)

This project is in Phase III, where we are developing the functionality necessary to administer all aspects of the IAP by PERS and eliminate the use of an outside TPA. Completion of Phase III is the subject of POP 102 in the agency's 2017-19 budget request.

- Phase I** (completed): Prototype proof-of-concept for an ESB solution
- Phase II** (completed): System architecture built; user interface designed; and system requirements documented
- Phase III** (to be completed): Construction of production solution; testing; deployment; and transition from TPA

\$1,914,399 Original POP allocation
\$1,255,601 Senate Bill 5701 allocation
\$3,170,000 IAP Phase III dollars

(\$1,656,757) Actual expenses (through 3/31/2017)
(\$1,513,243) Projected expenses
\$ 0 Remaining budget in 2015-17

Policy Package 103 – Business Modernization

PERS requested \$6,401,007 Other Funds limitation in the Information Services Division to fund and support PERS' business modernization. Our 2015-2020 Strategic Plan aims to modernize and enhance our systems to improve current administration and expand services to Oregon Public Service Retirement Plan (OPSRP) members as we strive to engage them in career-long retirement planning (OPSRP already has more members than Tier One and Tier Two combined). Members that make better-informed decisions throughout their careers are more likely to achieve a secure and successful retirement.

Modernizing our administrative systems to a service-oriented architecture (SOA) extends the useful life of the network's components and allows for incremental improvements rather than a more expensive "rip and replace."

Policy Packages 103 Summary (continued)

New functionality

Modernization will provide PERS the ability to:

- Enhance our members' online experience through a variety of platforms and devices, such as smartphones;
- Allow for full functionality for aspects of the OPSRP Pension Program, such as splitting benefits for divorced members;
- Increase the accuracy and timeliness of benefits, calculations, and payments; and
- Sustain and enhance system architecture and technologies to decrease time and labor spent on workarounds.



Better experiences

To modernize the technology platform, address functional inefficiencies, and sustain and evolve ORION for the next decade, PERS seeks funding approval to increase the Information Services Division's current service level budget by \$5,885,277 and provide a Pension Case Management Solution (\$515,731, included in the request).

Policy Package 200 – Data Center

This package has been added by DAS CFO to request \$1,147,634 in Other Funds limitation to the Information Services Division. PERS has worked with SDC to develop initial cost estimates necessary to design, plan, test, and deploy a warm-site in SDC.

In the event of a localized disaster, maintaining continuity of PERS is critical to the successful processing and payment of retirement benefits to PERS members. As submitted in the Governor's Budget, these funds will be transferred to the State CIO for labor, build out, and licensing costs.

Governor's Budget: Requested Technical Adjustments

Rescheduling of Policy Package 104: Technology Maintenance and Enhancements for jClarety Business Modernization

POP 104 in the 2015-17 biennium originally requested \$3,281,250, but was awarded \$250,000 to research and develop a Modernization Plan. PERS received \$1,659,976 in the February 2016 session in Senate Bill 5701 for technical debt. However, those funds were left unscheduled. On March 30, 2017, \$375,000 was rescheduled leaving \$1,284,976 in unscheduled funding.

Rescheduling of Policy Package 105: Disaster Recovery and Infrastructure Upgrades

POP 105 in the 2015-17 biennium requested \$1,581,200. PERS received approval. However, those funds were left unscheduled. On April 10, 2017, \$600,000 was rescheduled leaving \$981,200 in unscheduled funding.

This leaves a total of \$2,266,176 in unscheduled funding from POPs already approved in the current biennium.

Technical Debt Cleanup & System Maintenance

PERS asks to continue its initiative to address technical debt with PERS' administration systems. This initiative will allow PERS to maintain the current system and continue to provide current service levels to our members for several years. This initiative also supports PERS' business strategy to create a Service Oriented Architecture so legacy applications and modern services can co-exist on a common architectural framework.

Continued delay in addressing technical debt exposes the agency to risk in a rapidly changing technology environment. Risks included not staying current with updated technology versions, refactoring poorly written code, resolving known security vulnerabilities, integration issues with other ORION applications, and an increase in FTE devoted to manual processing, which is prone to error, cannot be processed in a timely manner, and leaves data anomalies in the system.

Complex pension system rules, changing legislative requirements, and unique processing requirements cannot be efficiently processed without a properly maintained IT system.

Technical Debt Cleanup & System Maintenance (continued)

Cost Analysis Estimates:

Batch Improvements and SQL code refactoring – \$350,000

- Correct error handling logic in the jClarety batch system to handle anomalies during processing.
- Improve overall batch process reporting

Code Maintenance – \$600,000

- Cleanup old code from previous implementations of jClarety.
- Update jClarety User Interface to be compatible with current standards and modern browsers
- Map jClarety screens to SQL queries

Database – \$150,000

- Identify and remove unused tables and columns not used from previous jClarety implementations.
- Implement Databases improvement recommendations from design analysis findings to prepare for ORION modernization.

Reporting – estimated cost \$185,000

- Update outdated reporting engine to modern standards
- Convert jClarety reports to modern tool

jClarety missing functionality – \$1,000,000

- Automate split of OPSRP Pension benefit between member and alternate payee, plus 12 associated business change requests

Total Projected Costs for FY2017-2019

\$2,285,000

Policy Packages Summary – 101 Cybersecurity

Policy Package 101: Cybersecurity Program

PERS requested \$2,252,966 Other Funds limitation to create a Cybersecurity Program within PERS. Executive Order 16-13 requires the OSCIO to provide centralized cybersecurity services, so the Governor's Budget approved this request and transferred this amount to DAS.

While PERS maintains an information security function, it is fragmented, there is not enough focus on end-user awareness training, it lacks operational accountability, and is often viewed as an afterthought when developing or implementing new technologies. That state of affairs is not optimal.

Policy Package 101 was submitted to establish a stand-alone program within the agency to address these vulnerabilities. Services provided by OSCIO under Executive Order 16-13 will compliment and integrate with the agency's efforts, but they will not be totally sufficient to address all of the agency's needs. Information security must be a core agency principle, which requires localized leadership and initiatives to ensure that the specific security and business objectives of the agency are met.

Governor's Budget: Requested Technical Adjustments

Package 101: Cybersecurity Program

PERS requested \$2,252,966 in the Information Services Division to develop, implement, and manage the PERS Cybersecurity Program. This request was modified in the Governor's Budget in compliance with Executive Order 16-13, "Unifying Cybersecurity in Oregon," with the functions of this package being provided by OSCIO. The requested funds will be transferred to DAS and the three requested FTE were removed.

PERS requests to have its Cybersecurity Program approved as follows:

- Approve and transfer two positions identified in POP 101 including 2.00 FTE \$496,921 in expenditure limitation (i.e., Information Security Officer and Information Security Systems Engineer) to DAS. However, these resources need to remain within the Agency to support PERS' cybersecurity efforts.
- Approve and retain the CISO position identified in POP 101 to PERS with 1.00 FTE (PEME) and \$259,521 in expenditure limitation. This resource will work in conjunction with ESO to direct the efforts of the two cybersecurity positions identified above, to ensure a smooth transition to unifying the state's cybersecurity efforts.
- Approve and retain \$904,275 in Services and Supplies and \$675,500 in Capital requested in POP 101 with PERS for use to implement and operate its Cybersecurity Program. As the state's "Unified Cybersecurity" effort is rolled out, PERS will migrate the associated security services to ESO.

Governor's Budget: Requested Technical Adjustments

Package 090: Analyst Adjustments

Due to Executive Order 16-13, Unifying Cyber Security in Oregon, this package removes two positions from the Information Services Division. With the removal of the positions there is a reduction in Other Funds limitation of \$475,791 in Personal Services and \$21,130 in Services and Supplies for a total reduction of \$496,921 and two FTE.

PERS requests that the two positions, identified as part of Executive Order 16-13, be returned to PERS with the 2.00 FTE and \$496,921 in expenditure limitation.

These two positions are systems administrators responsible for supporting the core system and the ORION infrastructure. Any security functions performed by these staff represent a minor percent of their daily work efforts. Therefore, reassigning these positions to the Executive Security Office (ESO) will not benefit the state's unifying cybersecurity effort. However, it will impose a significant risk for PERS.

Governor's Budget: Requested Technical Adjustments

Package 103: Business Modernization

PERS requested \$6,401,007 in the Information Services Division to fund and support PERS Technology Modernization and a Pension Case Management Solution. This request was modified in the Governor's Budget to approve as one-time funding, however, the three FTE originally requested for this package were not approved.

Fiscal Impacts of 2017 Legislation

Senate Bills 559 and 560

These bills were heard in the Senate Workforce Committee; multiple amendments were drafted for the bills. They were ultimately assigned to the Joint Committee on Ways and Means. We will continue to monitor these bills for additional discussions or proposed changes.

The Fiscal Impact Statements that were provided for these bills as drafted may not reflect the actual cost of implementation, once the final provisions have been determined. If subsequent legislation is adopted in the course of this session, we will attempt to quantify the fiscal impact as best as we can but expect that we might need to return to an interim committee to request a more accurate amount of funding for implementation.

For More Information

Website

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