STATE OF ARIZONA

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AUDITOR GENERAL

OFFICE OF THE

AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

November 9, 2017

The Honorable Bob Worsley, Chair
Joint Legislative Audit Committee

The Honorable Anthony Kern, Vice Chair
Joint Legislative Audit Committee

Dear Senator Worsley and Representative Kern:

Our Office has recently completed a 30-month followup of the *Arizona Department of Revenue—Use of Information Technology* regarding the implementation status of the 20 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in April 2015 (Auditor General Report No. 15-105). As the attached grid indicates:

- ■ 12 have been implemented;
- ■ 5 have been implemented in a different manner;
- ■ 1 has been substantially implemented; and
- ■ 2 are no longer applicable.

Unless otherwise directed by the Joint Legislative Audit Committee, this concludes our follow-up work on the Arizona Department of Revenue's efforts to implement the recommendations from the April 2015 performance audit report.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:ka
Attachment

cc: David Briant, Director
       Arizona Department of Revenue

Recommendation	Status/Additional Explanation

Finding 1: Department hindered by ineffective IT leadership processes

1.1 To fully establish an IT governance structure, the Department should:

The Department has reorganized its governance framework for all projects, including IT projects, and has moved responsibility for project governance to the Department's Office of Continuous Improvement. By shifting this responsibility, the Department reported that it can approach projects as agency-wide priorities, which includes IT projects. Additionally, the Office of Continuous Improvement can ensure the governance body reacts appropriately when changes to the governance structure are necessary.

As outlined in the Department's project governance charter, the governance structure includes both a governance board and a steering committee. The governance board is responsible for setting the high-level vision for department operations and comprises the director, two deputy directors, and administrator of the Office of Continuous Improvement. The steering committee is responsible for reviewing and prioritizing project requests and ensuring that projects align with the Department's strategic plan, vision, and goals and comprises the assistant directors of the Department's three business divisions, as well as other department staff.

Instead of undertaking many projects at the same time, the steering committee has prioritized 12 agency projects. These projects have IT components, and the governance framework requires that department business units participate in the planning, execution, and monitoring of the projects. Each week, project owners report specific project performance measures at a steering committee meeting. The governance board participates in these meetings and is, thus, able to continuously monitor these projects.

a. Implement its governance charter, including developing and implementing a prioritization process and any other policies and procedures necessary to govern the Department's IT. For example, IT governance policies and procedures should ensure that communication and reporting methods provide those responsible for oversight and decision making with appropriate information. In addition, the policies and procedures should assign responsibility, authority, and accountability in line with its governance structure.

Implemented at 24 months

Recommendation	Status/Additional Explanation

b. Train those responsible for IT governance to ensure they clearly understand the governance charter, associated policies and procedures, and their role in governance.

Implemented at 24 months

c. Ensure that the Committee's practices are revised to function as a governance body—one that sets the direction for future department-wide IT and advises on strategic direction rather than one that spends significant time receiving detailed updates on projects.

Implemented in a different manner at 24 months
See explanation for Recommendation 1.1.

d. Develop and implement policies and procedures for monitoring the effectiveness of its IT governance structure and evaluate whether the IT governance structure and associated processes provide adequate direction and oversight.

Implemented at 30 months

e. Evaluate its related policies and procedures annually and update them as needed to accommodate changes in operation or business environments.

Implemented in a different manner at 30 months
See explanation for Recommendation 1.1.

1.2 To fully establish an IT management structure, the Department should:

The Department has fully established an IT management structure to carry out the direction its governance body sets. Although the Department's governance body and IT management once operated separately from one another, auditors noted that by reorganizing its entire governance structure to include business owners, ongoing monitoring through weekly steering committee meetings, and collaboration between IT management and business functions, the Department has created a more effective project governance and IT management structure. Further, the Department's IT management holds biweekly meetings to provide updates on the status of agency projects and collaborate with business owners to complete projects.

Because of the approach the Department has taken, there is no one specific set of policies and procedures that guides the multiple ways in which IT management carries out the direction of the Department's governance body. Some practices are identified in the governance charter, which is updated annually. However, auditors noted that other IT management practices help ensure that IT management is carrying out the appropriate direction. For example, IT management holds biweekly project briefing meetings where IT staff who are working on one of the Department's 12 projects report their progress to the Chief Information Officer (CIO) and other agency staff. IT management also maintains detailed bulletin boards containing project descriptions, status summaries, and milestones. Auditors found these practices to be effective in ensuring that IT management was carrying out the direction of the governance body.

Recommendation	Status/Additional Explanation
a. Finalize and implement an IT management structure for carrying out the IT direction the governance body sets, whether through system owners or another approach.	**Implemented at 24 months**
b. Develop and implement policies and procedures to define which staff will carry out IT management, what their authority and responsibilities will entail, and how they will be held accountable.	**Implemented at 24 months**
c. Train those responsible for IT management to ensure they clearly understand the IT management structure, associated policies and procedures, and their role in IT management.	**Implemented at 24 months**
d. Develop and implement policies and procedures for monitoring the effectiveness of its IT management structure and evaluate whether the IT management structure and associated processes are adequate to carry out the IT direction that the governance body sets.	**Implemented in a different manner at 30 months** See explanation for Recommendation 1.2.
e. Evaluate its related policies and procedures annually and update them as needed to accommodate changes in operation or business environments.	**No longer applicable** Because many of IT management's practices for carrying out the governance body's directives are continually improved to address changes in operation or business environments, this recommendation is no longer applicable. For more information, see the explanation for 1.2.
1.3 To ensure its IT strategic planning is aligned with IT standards and the OSPB's model planning practices, the Department should ensure that its IT management:	
a. Assess the gap between its current IT capabilities and target capabilities based on IT standards and model planning practices. Then, to address the gap, IT management should create long-term goals and revise the IT strategic plan in line with the Department's strategic plan.	**Implemented at 30 months**
b. Ensure that its revised IT strategic plan includes prioritized, SMART strategic objectives to accomplish its goals; detailed SMART action steps needed to implement the plan; and a timetable of when specific staff will accomplish objectives and specific action steps. The IT strategic plan should also include clearly defined performance measures for each strategic objective, and a monitoring system to ensure objectives are accomplished.	**Implemented in a different manner at 30 months** The Department created its fiscal years 2018-2022 IT Strategic Plan in August 2017. This plan includes specific goals and timetables to complete projects. Although the plan lacks some elements prescribed by OSPB planning guidance, the Department has established multiple other processes for defining performance measures and monitoring projects specified in the plan. For example, each department project has a project charter that includes specific criteria for success and project objectives. Additionally, the Department provides constant project monitoring through its weekly executive leadership team meetings and IT project update meetings.

Recommendation	Status/Additional Explanation
c. Train those responsible for IT strategic planning to ensure they clearly understand their role and associated policies and procedures.	**No longer applicable** The Department developed its IT strategic plan based on a gap analysis of IT capabilities and its department-wide strategic plan. Therefore, it was not necessary to train staff on specific policies and procedures.
d. Communicate the finalized IT strategic plan to appropriate stakeholders and users department-wide to garner full support of initiatives.	**Implemented at 30 months**
e. Ensure staff monitor progress in completing strategic initiatives and regularly report their progress to IT management.	**Implemented at 30 months**
f. Ensure its IT budgeting practices are documented and consistent with its IT strategic initiatives.	**Implemented at 24 months**
g. Develop and implement policies and procedures for monitoring the effectiveness of its IT strategic planning processes.	**Implemented at 30 months**
h. Evaluate its related policies and procedures annually and update them as needed to accommodate changes in operation or business environments.	**Substantially implemented at 30 months** The Department has developed and implemented a policy for monitoring the effectiveness of its IT strategic planning process; however, because this policy was developed in November 2017, the Department has not yet had enough time to perform an annual review of the policy. A review is scheduled to occur in September 2018. However, auditors have observed department leadership continuously discussing the IT strategic plan and relevant changes in operation and business environments.

Finding 2: Additional steps needed to prepare for planned IT system replacement

Recommendation	Status/Additional Explanation
2.1 The Department should revise its project management and SDLC policies and procedures to be consistent with its new IT governance, management, and strategic planning processes.	**Implemented at 30 months**
2.2 The Department should ensure that its project management and SDLC policies and procedures, once revised, are clearly communicated to all applicable staff and closely followed to avoid the system implementation problems it experienced when BRITS was implemented.	**Implemented in a different manner at 30 months** The Department's project management policies were finalized in November 2017, and auditors found that these policies had been communicated to applicable department staff through the Department's governance model and use of the Arizona Management System, which is a state initiative to help state agencies improve productivity, quality, and service.