# Arizona Department of Revenue—Use of Information Technology

## Department hindered by ineffective IT leadership processes

### Our Conclusion

The Arizona Department of Revenue (Department) relies on its information technology (IT) to carry out its business functions, including processing tax returns, auditing taxpayers, and collecting delinquent taxes. However, the Department's use of IT is hindered by ineffective IT leadership, specifically IT governance and management processes, for making and carrying out IT decisions. This struggle to effectively implement IT systems and tools can be seen in the Department's inadequate implementation of its primary IT system, as we reported in 2005, which remains plagued by problems, and by not taking advantage of various other IT capabilities that could improve its operations. Although the Department has initiated efforts to improve its IT governance processes, it should continue these efforts and establish effective IT management processes. The Department also plans to replace its primary IT system, possibly beginning in fiscal year 2017, but it needs to do more to prepare for implementing a new system.

2015

**Department has struggled implementing IT systems and tools that would improve operations**—The Department's primary IT system, called the Business Reengineering/ Integrated Tax System (BRITS), was not adequately implemented and is cumbersome to use. Since the first phase of BRITS was implemented in 2004, the system has required and continues to require many improvements and remains difficult to modify. In fact, as of April 2014, nearly 1,300 improvements were needed to BRITS and other department IT systems. These needed improvements have resulted in inefficiencies and inconveniences for both the Department and taxpayers.

In addition, the Department lacks IT capabilities that other states have used to improve effectiveness and efficiency. These capabilities range from enhanced electronic filing (e-filing) of tax returns to data-driven approaches for selecting which returns to audit and the best way to collect taxes owed to the State. For example:

- **Limited e-filing and inefficient paper processing**—The Department offers e-file for individual income tax, transaction privilege tax (TPT), and withholding tax, but the Department does not offer e-file for corporate income tax or luxury tax. Additionally, the e-file rate for the TPT is far less than the rate of paper-filed returns. The Department explained that this rate is likely low because the TPT e-file process is cumbersome and inconvenient, but that the implementation of statutory TPT reform will streamline the process. Additionally, the Department has not implemented optical and/or intelligent character recognition to electronically capture handwritten or typed information on paper-filed tax returns. Instead, the Department relies on temporary employees to manually process the information from these returns.

- **Ineffective processes for selecting audits and collecting delinquent taxes**—The Department has not fully leveraged data analytics tools that would help select more effective leads for taxpayer audits and prioritizing and managing collections cases. Instead, the Department largely relies on manual or inefficient processes that could result in the State receiving less money from audits and collections.

**Department's IT struggles reflect ineffective IT leadership processes**—Specifically, the Department has not established effective IT governance and management processes for making and carrying out IT decisions. The Department had established an IT Steering Committee (Committee) comprising department leadership that met to review the status of IT projects and system maintenance, but had not formally established the Committee's purpose or committee members' responsibilities. In addition, although the Department had developed IT-related strategic plans, these plans lacked action steps and performance measures, and did not assign responsibility for achieving the action steps.

Without these processes, we observed that the Committee had difficulty making decisions and often made decisions in response to IT demands, crises, or challenges; and that committee members were frustrated in their decision making by limited project understanding, poor communication, and uncertainty as to who was ultimately responsible for decision making.

**Department should apply IT standards to establish more effective IT leadership processes**—The Department should look to IT standards to improve its IT governance and management processes. During the audit, the Department adopted a charter that restructures its Committee as a governance body, establishes its purpose, and includes a decision-making policy. However, the Department had not yet developed and implemented associated policies and procedures that address its prioritization process, communication and reporting methods, and the assignment of responsibilities and authority. The Department should also train those responsible for IT governance on these policies and procedures once they are implemented, the governance charter, and their IT governance roles.

Although the Department's governance charter describes the new IT management structure it intends to implement, as of December 2014, it had yet to establish this structure or define how it would carry out the direction set by the Committee. The Department should also ensure that its IT management develops an IT strategic plan based on an assessment of the gap between its current and target IT capabilities. In creating the strategic plan, the Department should ensure that its IT management follow model planning practices, including communicating the plan to appropriate stakeholders and throughout the organization.

## Recommendations

The Department should:

- Fully establish and implement its new IT governance and management structures;
- Develop and implement necessary policies and procedures;
- Train those responsible for IT governance and/or management on their roles, responsibilities, and related policies and procedures;
- Ensure that IT management creates a strategic plan that follows model planning practices; and
- Monitor and evaluate its IT governance and management structures and related policies and procedures annually and update them as needed.

## Additional steps needed to prepare for planned IT system replacement

**Department reported that BRITS will need to be replaced soon**—According to the Department, BRITS is outdated, and further upgrades would be more expensive and less useful than a new system. In addition, the contractor that developed BRITS no longer sells the system and has discontinued its hardware and system support. A vendor that provides software used in BRITS is also reducing its level of support. As a result, and as required by statute, the Department has requested funding to begin planning for a replacement system, possibly for a phased implementation between fiscal years 2017 and 2020.

**Department should address system implementation risks**—As we reported in 2005, the Department did not adequately manage BRITS' implementation. For example, the Department did not adequately define or test the functions the system needed to perform. The Department's IT Division has adopted project management and system development lifecycle (SDLC) policies and procedures that are generally aligned with IT standards to manage projects and develop software. However, these policies and procedures will need to be revised so they are consistent with the Department's new IT governance, management, and strategic planning processes. To avoid the same problems encountered with BRITS' implementation, the Department should ensure that it clearly communicates these policies and procedures to applicable staff and that the staff closely follow them.

## Recommendation

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, and ensure that it clearly communicates them to staff and that staff closely follow them.