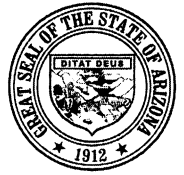


# STATE OF ARIZONA

Department of Revenue



*Douglas A. Ducey*  
**Governor**

*David Raber*  
**Director**

April 9, 2015

Debbie Davenport, Auditor General  
Arizona Office of the Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Dear Mrs. Davenport:

On behalf of the Arizona Department of Revenue, thank you for your performance audit report, "Use of Information Technology." We enjoyed working with your staff and commend them for their professionalism and insight.

The topic of this audit was both relevant and timely. As the state agency responsible for processing, depositing and distributing over \$13 billion per year to fund state and local government services, it is crucial that we implement and utilize the most effective technologies available to us. Arizona's taxpayers are technically sophisticated. They deserve and have come to expect e-government services, including e-services in the area of taxation. The Department desires to affirmatively respond to Governor Ducey's call for "government to operate at the speed of business." New and effective information technology systems will play a critical role in making that vision a reality.

The audit report provided two findings that we are in full agreement with. The Department intends to implement the Office of the Auditor General's recommendations with respect to these findings. Specifically, Finding 1 indicates that the Department lacks effective technology leadership and project governance processes. Finding 2 indicates that the Department must take steps necessary to effectively replace our core tax system.

## **Finding 1**

We appreciate that your audit report discusses our current tax system (known as BRITS) in great detail. As you point out, the Department began implementing the various components of BRITS over a decade ago. While the project met many goals, including providing for a tax processing platform and certain revenue enhancements that helped to fund the system, the fact is that the project fell short in delivering what the agency required: a comprehensive, integrated tax system complete with audit and collections platforms to lead the Department into the 21<sup>st</sup> century. Since the BRITS implementation, the Department of Revenue has been forced to live with the aftermath of those serious

shortfalls in deliverables, and frankly, those deficiencies have held the Department back in many ways over the past decade.

The BRITS system was acquired as a result of a competitive procurement process. Unfortunately, BRITS was procured and implemented just a few years before the state and local taxation market was provided with some high quality, private sector-developed, commercial off-the-shelf (COTS) integrated tax system options. The urgency to replace a very old, legacy mainframe system on the brink of failure resulted in the need to procure a new system at that time, without further delay. The COTS systems were not available during the procurement process, so the Department ended up with a highly customized system, which we have since found to be inflexible and very difficult to modify. The result is a system that does not allow the Department to be adaptable and responsive to new technology priorities and tax legislation in a timely manner.

This deficiency can best be illustrated in the Department's implementation of Transaction Privilege Tax (TPT) Simplification legislation that was passed and signed into law more than two years ago. The requirement that the Department provide business/taxpayer location-based data to local governments has taken months longer to program than originally anticipated, and it has resulted in a one-year delay in implementing the single point of administration component of the new law. In implementing this legislation, it became more apparent than ever that BRITS was rigid, overly complex and highly difficult to change.

The audit report makes it clear that the Department has failed to improve its systems over the past decade such as electronic filing, OCR/ICR technology and audit selection and collections prioritization data analytics. BRITS failed to deliver that functionality upon implementation, and the complexities of BRITS logic and programming code have prohibited the Department from adding those capabilities after-the-fact. However, it is important to note that the COTS systems currently available on the market provide these forms of functionality. In fact, most of the states referenced in the audit report as "best practice examples" and jurisdictions capable of providing better technical functionality have already implemented one of the available COTS systems.

The audit report also points out the need for the Department to enhance our IT leadership and governance processes. The processes which were in place prior to the audit were carry-overs from the BRITS implementation. While those processes and systems served the agency well in the past, we agree that a fresh look at how we manage technology from a high level will be of great benefit.

As you noted in the report, we have already started down a path of improving our leadership and governance processes. We have reinvented our governance committee, and that group of agency leaders will govern initiatives requiring greater than 1,000 hours in effort. This begins with the prioritization of initiatives in the Department's annual strategic planning process. Throughout the lifecycle of initiatives, beginning with the approval of the Program Charter, the Information Technology Steering Team (IST) monitors initiative progress. As necessary, the IST reprioritizes initiatives in response to

external forces, risk or unplanned business events and uses a change management process that includes risk, resource and financial implications. Further, the IST executes quarterly strategic reviews.

The Department recently identified leadership resources and began the implementation of constituent-led Enterprise System Owner subcommittees. We are currently focused on the processes and training for the Enterprise System Owners. In February, the Department created and filled the position of Chief Architect; the Chief Architect now participates in the IT Committee and Department strategy development, serves as the IT focal point for the analysis of the BRITS system replacement and acts as a key contributor in the development of the sub-committee processes, which include application roadmaps driven by Department strategy. Also, since this audit commenced, the Department has made funds available within our existing budget to create and fill two key positions: Deputy Chief Information Officer and Program Manager over the TPT Simplification Project.

While an updated technology leadership and governance system will be of great assistance to the Department, we do not believe that those changes by themselves will solve all of our agency technology challenges. We recognize three primary reasons for a lack of progress in addressing critical technology issues in a timelier manner: (1) a lack of resources, (2) incredible challenges with modifying or improving our customized tax system, BRITS, and (3) a continuous need to address higher priorities brought about by legislative policy changes and revisions to tax laws.

Again, the best and most recent example of item (3) would be the TPT Simplification processes created by statutory changes over the past two years. While TPT Reform is a necessary, business-friendly tax policy that we are honored to implement, the legislation has consumed the agency with modifications to our brittle tax system, while sidelining other priority technology projects at the Department. Even the very best and most effective of governance and leadership processes could not have overcome or solved these challenges on their own. However, we still believe and practice continuous improvement at the Department and will implement and practice a new leadership, strategic planning and governance process in our technology.

## **Finding 2**

We were pleased to see that your audit report addressed the replacement of the BRITS system. We fully agree and will implement your recommendations for preparing for the system replacement.

A system replacement is the highest priority of the Department in upcoming years. Much time, effort and funding has been put into modifying a system that was never designed to be changed significantly or modified from its original state. The time has come to cease making tactical, piecemeal investments in the system and instead make a strategic investment that will provide for a new integrated tax system which serves the State of Arizona and our taxpayers well in the future.

As we have pointed out, the state revenue agencies that offer the most e-services, have the best and most efficient processing, audit and collections systems and are continuously held up as examples to follow are the states that have procured and implemented one of the excellent COTS systems made available on the market within the past half-decade.

Implementing such a system at the Department is paramount. The experience of procuring and implementing the BRITS system provided valuable lessons learned that we will apply to the procurement of a new tax system. We will carefully execute this process, taking into consideration the recommendations your team has made.

The Department is an active participant in the Federation of Tax Administrators (FTA), an organization that exists to provide services to state tax administrators. These services include research and information exchange, training and intergovernmental and interstate coordination. Key representatives from our various divisions participate in FTA-sponsored conferences, training sessions, meetings and inter-departmental collaborations. One key advantage of the FTA is an opportunity to learn from state revenue departments that have recently completed, are currently implementing or are planning for a procurement of an integrated tax system. We will leverage the expertise and lessons learned of other FTA member states as we begin moving down the path of a system replacement.

### **Concluding Comments**

The Department will take full advantage of existing resources and will allocate future resources in a manner consistent with implementing the Auditor General's recommendations. By replacing and modernizing existing systems and continuing to enhance IT's leadership and governance processes the Department will be well-positioned to operate at the "speed of business."

Again, we thank you and your staff, and look forward to working together in the future.

Sincerely,

David Raber  
Director