

The June 2019 Arizona Department of Revenue performance audit and sunset review found that the Department did not comply with all conflict-of-interest requirements, ensure it collected and reported all State income taxes, and plan for eventual replacement of its main IT system. We made 7 recommendations to the Department, and its status in implementing the recommendations is as follows:

Status of 7 recommendations

Implemented	3
In process	3
No longer applicable	1

We will conduct a 54-month followup with the Department on the status of the recommendations that have not yet been implemented.

Finding 1: Department did not comply with some conflict-of-interest requirements

1. The Department should continue to implement and comply with its new conflict-of-interest disclosure process, including obtaining forms annually from all full-time employees, temporary staff, contractors, and commission and committee members.

Implementation in process—Although the Department has established a process for obtaining conflict-of-interest disclosure forms from its full-time employees, temporary staff, contractors, and commission and committee members, it reported that it has been unable to obtain disclosure forms from all employees and commission and committee members. The Department further reported that the loss of staff responsible for gathering disclosure forms and the failure of some commission and/or committee members to complete disclosure forms when requested has contributed to its inability to obtain disclosure forms as required by its process. We will continue to assess the Department’s efforts to comply with its conflict-of-interest disclosure process during our 54-month followup.

Sunset Factor 2: The extent to which the Department has met its statutory objective and purpose and the efficiency with which it has operated.

2. The Department should address its IT system’s limitations or immediately implement alternative review procedures to ensure it collects and reports all State income taxes.

Implementation in process—The Department continues to address its IT system’s limitations by using the tool it developed to reconcile employer withholding and individual income taxes paid. However, as reported in the Fiscal Year 2021 State of Arizona Single Audit Report issued in November 2022, we found that the Department did not perform all necessary reconciliations to ensure it collected all income taxes due to the State. As part of the State’s corrective action plan to address findings in the Arizona Single Audit Report, the Department reported that it will continue to engage in outreach and education efforts to assist employers in understanding and complying with requirements for submitting withholding information to help ensure that all relevant accounts are included in the Department’s reconciliation process. Additionally, the Department is in the process of procuring a new integrated tax system that will include withholding reconciliation for all relevant income tax accounts (see explanation for Recommendation 3).

3. The Department should plan for BRITS' ongoing maintenance and eventual replacement and document these plans.

Implementation in process—The Department continues to receive yearly funding for BRITS' ongoing maintenance. This included a fiscal year 2023 appropriation of nearly \$7.8 million for annual maintenance, increased data storage capabilities, and information technology (IT) personnel. The Department has requested more than \$8 million for fiscal year 2024 for BRITS' maintenance and IT personnel.

The Department has also continued to prepare for BRITS' eventual replacement by completing a feasibility study in June 2020 and issuing a request for proposals for a new integrated tax system in September 2022. The Department expects to award a contract for the new integrated tax system in June 2023. The Department estimated that the new integrated tax system will cost nearly \$105 million and will be implemented in various stages across fiscal years 2023 through 2028.

Sunset Factor 4: The extent to which rules adopted by the Department are consistent with the legislative mandate.

4. The Department should adopt the rule required by A.R.S. §43-1080.

No longer applicable—Laws 2020, Ch. 243, repealed A.R.S. §43-1080 and, thus, eliminated the rule requirement.

Sunset Factor 5: The extent to which the Department has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

5. The Department should ensure that the commissions and committee it supports adhere to all provisions of the State's open meeting law, including ensuring that agendas are available 24 hours in advance and meeting minutes are available within 3 business days of each meeting.

Implemented at 6 months

Sunset Factor 6: The extent to which the Department has been able to investigate and resolve complaints that are within its jurisdiction.

6. The Department should track the timeliness of its Criminal Investigation Unit's complaint-resolution process.

Implemented at 6 months

7. The Department should document its Taxpayer Assistance Office's and Criminal Investigation Unit's complaint-resolution processes in written policies and procedures.

Implemented at 6 months