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February 19, 2016

The Honorable John Allen, Chair
Joint Legislative Audit Committee

The Honorable Judy Burges, Vice Chair
Joint Legislative Audit Committee

Dear Representative Allen and Senator Burges:

Our Office has recently completed an initial 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:

- 2 are in the process of being implemented;
- 6 have not been implemented; and
- 12 are not yet applicable.

Our Office will conduct an 18-month followup with the Arizona Department of Revenue on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:kf
Attachment

cc: David Briant, Director
Arizona Department of Revenue

Arizona Department of Revenue— Use of Information Technology Auditor General Report No. 15-105 Initial Follow-Up Report

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:

- 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.
- b. Train those responsible for IT governance to ensure they clearly understand the governance charter, associated policies and procedures, and their role in governance.
- 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.
- 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.
- e. Evaluate its related policies and procedures annually and update them as needed to accommodate changes in operation or business environments.

Implementation in process

The Department has put new IT leadership in place, including a new Chief Information Officer (CIO) and a new Deputy CIO. They reported that they are in the process of developing a new IT governance body, charter, and other policies and procedures to establish an IT governance structure and plan to implement this structure by October 2016. The Department will not be able to train those responsible for IT governance until the governance charter and associated policies and procedures have been implemented. Similarly, the Department will not be able to monitor and evaluate the effectiveness of its IT governance structure, or annually review and update related policies and procedures, until the structure has been established. However, the Department reported that its new IT governance structure will include continuous monitoring and process assessment and the use of key performance indicators.

Not yet applicable

See explanation for recommendation 1.1a.

Not yet applicable

See explanation for recommendation 1.1a.

Not yet applicable

See explanation for recommendation 1.1a.

Not yet applicable

See explanation for recommendation 1.1a.

Recommendation

Status/Additional Explanation

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

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.

Implementation in process

The Department has developed a new IT management structure and is in the process of finalizing the new IT division organizational chart. The Department's CIO reported that this structure will allow IT management to carry out the direction the Department's IT governance structure sets once it is implemented. The Department reported that it is developing policies and procedures for its new IT management structure, although it did not provide any draft policies and procedures for auditors' review. The Department will not be able to train those responsible for IT management until it develops and implements the associated policies and procedures. Similarly, the Department will not be able to monitor and evaluate the effectiveness of its IT management structure, or annually review and update related policies and procedures, until the structure has been established. The Department reported that it will fully implement these recommendations by December 2017.

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.

Not implemented

See explanation for recommendation 1.2a.

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.

Not yet applicable

See explanation for recommendation 1.2a.

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.

Not yet applicable

See explanation for recommendation 1.2a.

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

Not yet applicable

See explanation for recommendation 1.2a.

Recommendation

Status/Additional Explanation

- 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.

Not implemented
The Department reported that it plans to conduct a gap analysis and develop a 5-year plan that aligns its IT goals with its strategic plan by December 2016. The Department will not be able to communicate the plan to stakeholders or ensure staff monitor progress in completing strategic initiatives and report progress until the plan is created.
 - 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.

Not implemented
See explanation for recommendation 1.3a.
 - c. Train those responsible for IT strategic planning to ensure they clearly understand their role and associated policies and procedures.

Not implemented
The Department reported that it will complete this training by December 2017.
 - d. Communicate the finalized IT strategic plan to appropriate stakeholders and users department-wide to garner full support of initiatives.

Not yet applicable
See explanation for recommendation 1.3a.
 - e. Ensure staff monitor progress in completing strategic initiatives and regularly report their progress to IT management.

Not yet applicable
See explanation for recommendation 1.3a.
 - f. Ensure its IT budgeting practices are documented and consistent with its IT strategic initiatives.

Not implemented
The Department reported that this recommendation will be implemented using a two-phased approach. The first phase will focus on meeting the short-term goals for the Department's fiscal year 2017 IT initiatives while staying within its allocated budget. The second phase will focus on aligning the Department's budgeting practices with the IT strategic planning process. The Department reported that it plans to implement the first phase by July 2016 and the second phase by July 2017.
 - g. Develop and implement policies and procedures for monitoring the effectiveness of its IT strategic planning processes.

Not implemented
The Department reported that it will implement this recommendation by December 2017.

Recommendation

Status/Additional Explanation

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

Not yet applicable

The Department will not be able to fully implement this recommendation until all related policies and procedures are established. However, the Department reported that it plans to implement an annual policies and procedures review schedule in 2017.

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

- 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.

Not yet applicable

The Department will not be able to revise these policies and procedures until it completes its new IT governance, management, and strategic planning processes. However, the Department reported that it plans to develop new SDLC and project management policies by August 2017.

- 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.

Not yet applicable

The Department will not be able to communicate its revised policies and procedures until it completes them. However, the Department reported that it plans to train staff on updated SDLC and project management policies and procedures beginning in September 2017.
