

A REPORT
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Performance Audit Division

Performance Audit

Department of Revenue—

Business Reengineering/Integrated
Tax System (BRITS)

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Debra K. Davenport
Auditor General

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October 13, 2005

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Mr. Gale Garriott, Director
Department of Revenue

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Department of Revenue's Business Reengineering/Integrated Tax System (BRITS). This report is in response to a November 20, 2002, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting with this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Department agrees with all of the findings and plans to implement all of the recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on October 14, 2005.

Sincerely,

Debbie Davenport
Auditor General

Enclosure

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Department of Revenue's Business Reengineering/Integrated Tax System (BRITS) project pursuant to a November 20, 2002, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq and is one of a series of four reports on the Department. The other reports focus on the Audit Division, the Collections Division, and an analysis of the 12 statutory sunset factors.

Background

The Department of Revenue (Department) is responsible for licensing, processing, and collecting over \$9.8 billion in taxes for the State of Arizona. The Department is heavily dependent on information technology to perform its functions, but its technology was largely outdated and consisted of many different stand-alone systems. For example, the Department's system for transaction privilege taxes (better known as sales taxes) was built in 1982 and had reached its technical limits. In addition, numerous stand-alone databases were developed in isolation, resulting in the need to input taxpayer information separately and making it difficult for department staff to quickly view all aspects of a taxpayer's business with the Department.

In August 2002, the State entered into a contract with Accenture, a global management consulting firm, to reengineer its core business processes, organizational structure, and implement an integrated tax system—BRITS. With BRITS, taxpayer data will be entered in one place, and all taxpayer information will be available through this one integrated system. The project is being implemented in three phases. The first phase involved designing and implementing the main database where all tax processing activities will occur; developing other components to improve the Department's processes, such as tools to help find taxpayers who have not filed their taxes; and converting transaction privilege and withholding tax data from the Department's old system to BRITS. This phase has been implemented since October 2004. The second phase primarily includes converting corporate income tax data and is currently in progress. However, according to department management, the expected completion date has been revised from July 2005 to July

2006 to ensure that sufficient time is taken to fully define system requirements, complete user testing, and minimize operational impacts during peak processing times. The final phase primarily involves converting individual income tax data.

According to the Department, the scope of this phase has not been fully defined at this time; therefore, a target completion date has not been set. As a part of the BRITS project, the Department received approximately 1,100 desktop and 60 laptop computers and, to facilitate field collections, 50 handheld computers. The contract also includes “additional backfill support,” which appears to be for hiring temporary employees to help maintain the Department’s productivity during BRITS’ implementation and for ordering any needed additional technical support from Accenture staff during implementation. The State’s central procurement office, Enterprise Procurement Services (EPS), has overall authority for the contract, but has delegated contract administration responsibility to the Department.

The contract uses a benefits-sharing funding approach. Under this approach, Accenture is financing the contract’s up-front costs and will be paid, with interest, out of increased enforcement revenue the system is expected to generate. Enforcement revenue is money the Department receives as a result of its enforcement functions, such as audit, accounts receivable, and collections. BRITS is supposed to improve these activities, thereby generating three specific types of enforcement revenue (see text box). As provided for by the contract, the Department uses 85 percent of the additional enforcement revenue to pay Accenture’s invoices, and retains the other 15 percent. This allocation continues until the total cost of BRITS, \$122.65 million plus an estimated \$9-\$13 million in interest, is paid. However, if BRITS has not generated enough additional enforcement revenue to pay the contract costs by the end of the contract’s 10-year term, the Department will no longer be liable for the unpaid costs and will keep 100 percent of the additional enforcement revenue generated by the system after that time.

BRITS-generated Enforcement Revenue

- **Discovery revenue**—Money the Department collects from individuals identified by BRITS who have not filed taxes, or from taxpayer liabilities the Department was unable to collect before implementing BRITS. Each dollar of discovery revenue can be traced to a specific taxpayer and BRITS’ discovery program.
- **License compliance baseline revenue**—Money the Department collects because BRITS has improved the efficiency of its license compliance function, which involves staff finding businesses that are unlicensed. License compliance baseline revenue is measured against a baseline dollar amount, which is intended to represent license compliance revenue the Department would have collected without BRITS.
- **Efficiency revenue**—Basically all enforcement revenue, other than discovery revenue and license compliance baseline revenue, that the Department collects because BRITS has improved its enforcement activities’ efficiency (i.e., its audit, accounts receivable, and collections functions). Efficiency revenue is measured against a baseline dollar amount, which is intended to represent enforcement revenue the Department would have collected without BRITS.

Department needs to better manage BRITS project (see pages 9 through 18)

The Department could do more to ensure that it effectively manages BRITS implementation and that BRITS will meet its needs. According to the Department, by January 2004, demographic information for the transaction privilege (commonly known as sales tax) and withholding tax types had been converted to BRITS. Information that was converted included taxpayers’ names and registration numbers,

and some accompanying financial information for transaction privilege tax accounts, such as the amount taxpayers owed to the State. However, in some cases the data for transaction privilege tax accounts did not convert correctly. Further, due to BRITS' implementation problems, the Department had to manually review and correct its transaction privilege tax bills before sending them to the taxpayers, in turn causing a backlog of bills to be mailed. For example, as of June 30, 2004, approximately 6 months after beginning to process transaction privilege tax returns in BRITS, bills had not been sent for over 17,000 taxpayer liabilities totaling nearly \$45 million.

BRITS' implementation issues may have been minimized if the Department had hired an outside advisor as outlined in the BRITS contract. The BRITS contract contains a clause indicating the Department intended to hire an oversight advisor who was not affiliated with the project to report on BRITS' progress, risks, and budget and make advisory recommendations to the director. Department officials indicated they were not certain why an outside advisor was not hired, but cost may have been a factor. However, hiring an outside advisor may have prevented or at least helped identify and mitigate the BRITS implementation problems. For example, in 2003, Hawaii's Department of Taxation hired an outside advisor for approximately \$200,000 a year to provide quality assurance consultant services for its integrated tax system project. A Hawaii Department of Taxation official who auditors spoke with indicated that using an outside advisor was helpful and that a benefit of such an advisor is that they can alert the agency to things that should or should not be occurring on the project. A BRITS project outside advisor would have been beneficial to the Department. Interviews with the Department indicated that it did not involve a sufficient level of the most knowledgeable department staff, such as IT staff familiar with the previous systems, and the BRITS project has been managed by four different department project managers since the project began. Even though the Department is taking steps to more effectively manage the project, it should still consider hiring an outside advisor to help oversee BRITS' remaining phases. To do so, the Department would have to examine possible funding methods such as allocating monies from its current budget or seeking a separate appropriation from the Legislature.

Whether or not an outside advisor is hired, the Department needs to continue improving its project management. The Department has taken some steps to conform with best practices for IT project management. For example, for BRITS' second phase, the Department is involving a greater number of knowledgeable staff and working with Accenture to define in more detail what functions the BRITS system must be able to do. Auditors found, however, that the Department can make additional improvements in a number of areas, ranging from better planning and training to more thorough testing of whether functions actually work. For example, one best practice is to have an overall project plan to help guide the project management. Although Accenture created an overall project plan to guide its efforts, the Department has not created or followed any overall plan to guide its own management of the BRITS implementation.

BRITS not generating additional revenue as expected (see pages 19 through 24)

BRITS has not generated increased revenue as expected, resulting in negative financial implications for the State. BRITS appears to be generating two of the three types of enforcement revenue that are measured—discovery revenue and license compliance baseline revenue. However, BRITS has not been able to consistently produce the other type of enforcement revenue, efficiency revenue, primarily because of BRITS' inability to generate accurate bills for taxpayers with unpaid tax liabilities. Based on department information, efficiency revenue has been as much as \$27.3 million less than the Department expected to collect even without BRITS, and was approximately \$9.3 million less than expected as of March 2005.¹

BRITS' inability to increase enforcement revenue carries negative financial implications for the State. Specifically, because contract payments to Accenture are supposed to be made from increased enforcement revenue, BRITS' failure to generate efficiency revenue is hindering the State's ability to make payments. Since Accenture charges interest on unpaid contract costs, this translates to additional interest costs for the State.

The Department and Accenture are taking steps to improve enforcement revenue. For example, the Department has developed a special team of department and Accenture staff that is charged with increasing enforcement revenue by improving existing BRITS discovery programs and creating and implementing new ones. The Department needs to continue these efforts. The Department should also continue to include information about low efficiency revenue in its monthly project status report to the Government Information Technology Agency, which it only began doing in June 2005 in response to auditor recommendations.

Department should better ensure contract changes are appropriate (see pages 25 through 30)

In an effort to administer the contract under its indefinite-quantity terms, the Department has made several changes to the contract that may impact its overall scope. In all, the Department has added nearly \$7 million of additional services to the contract, including \$6.4 million for Accenture to provide offsite data center services. Initially, to keep the total contract price at \$122.65 million, the Department decreased the amount of monies available for other tasks. In particular, the Department primarily reduced the amount of monies available for a broadly defined task known as

• 1 As of September 8, 2005, the Department was in the process of finalizing efficiency revenue calculations for April through June 2005. However, department officials indicate that, based on preliminary calculations, they expect to realize enough efficiency revenue from those months to eliminate the cumulative negative efficiency amount.

“additional backfill support,” which appears to be for the hiring of temporary employees to help maintain the Department’s productivity during BRITS’ implementation and for ordering additional technical support from Accenture. Although the Department is trying to control the changes’ impact, its method of doing so may increase the contract’s price or require the Department to forego products or services.

Considering the contract changes’ potential impact, it is important that the Department consult department and state contracting officials. Consulting these procurement experts is especially important for the BRITS contract because EPS, not the Department, has overall authority for the contract. However, for the changes the Department has already made, communication was lacking. For example, one of the Department’s project managers signed a memorandum from Accenture indicating she agreed that 5 of 534 original system requirements are not within the contract’s original, overall scope, but did not discuss the agreement with the Department’s procurement office or EPS.

It is also important for the Department to thoroughly document contract changes. This will help ensure that changes that affect the contract’s overall scope are identified and incorporated into the contract. However, documentation for many contract changes either did not exist or did not fully explain how the change affected the scope of the tasks involved.

To its credit, the Department has begun taking steps to improve its communication and documentation of contract changes, and should continue its efforts. For example, on May 17, 2005, the Department sent a memorandum to EPS documenting the contract changes that had already been made and requesting that EPS increase the overall contract price by approximately \$6.4 million, to a new total of approximately \$129 million, to include the data center costs.¹

¹ If EPS increases the contract price to include the data center as requested by the Department, then the Department would no longer have to pay for the data center by reducing the amount of monies available for other contract tasks.

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INTRODUCTION & BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Department of Revenue's (Department) Business Reengineering/Integrated Tax System (BRITS) project pursuant to a November 20, 2002, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq and is one of a series of four reports on the Department. The other reports focus on the Audit Division, the Collections Division, and an analysis of the 12 statutory sunset factors.

Department administers state taxes

The Department was established in 1973 to provide an integrated, coordinated, and uniform system of state tax revenue administration and collection. The Department is responsible for licensing, processing, and collecting most taxes for the State. The Department's activities include issuing licenses or registration numbers for transaction privilege and withholding taxes; processing tax revenues paid by businesses, corporations, and individuals; and issuing taxpayer refunds. In addition, the Department helps ensure compliance with state tax laws through its enforcement functions, such as auditing taxpayer returns, identifying taxpayers who should have filed tax returns but did not, and collecting from taxpayers who did not pay or underpaid their taxes. In fiscal year 2004, the Department was appropriated approximately \$63 million and 1,134 full-time equivalent positions. Further, according to the Department's 2004 annual report, total tax

Arizona's Primary Tax Revenue Sources and Amounts (Fiscal Year 2004)

- **Transaction privilege, use, and severance taxes (\$5.6 billion)**—A transaction privilege tax is imposed on the seller for doing business in the State. Because it is usually passed on to the customer, this tax is commonly referred to as a sales tax. Use tax is imposed on businesses or individuals for purchasing personal property from out-of-state vendors for which sales tax was not paid, and severance tax is imposed on the business of mining metalliferous minerals and severing timber. Some of these taxes are collected for and distributed to Arizona's cities and counties.
- **Corporate, individual, and withholding income taxes (\$3.8 billion)**—Income taxes are imposed on individuals and corporations earning income in Arizona. In addition, businesses or individuals who hire employees must withhold income tax from their employees' compensation and remit it to the Department. Income tax revenues are shared with Arizona cities and towns.
- **Luxury tax (\$338 million)**—These taxes apply to liquor and tobacco. The Department is responsible for issuing tobacco licenses and stamps and collecting taxes on tobacco products and liquor. The majority of these monies are distributed to special funds, such as the Drug Treatment and Education Fund.

revenue collected by the Department during fiscal year 2004 exceeded \$9.8 billion (see text box, page 1).

BRITS designed to improve service and generate new revenue

Under the BRITS project, the Department is reengineering its core business processes and implementing an integrated tax system that is designed to make it easier for taxpayers to file returns and pay taxes, and the Department to conduct their tax functions. The Department's numerous tax administration and enforcement functions are heavily dependent on information technology. However, the Department's information technology, in large measure, was outdated, and over the years, many separate independent systems were developed. With BRITS, taxpayer data would be entered in one place, and all taxpayer information would be available through this one integrated system. This multi-year project is being funded by increased tax revenue that the system is expected to generate.

BRITS grew out of concerns about existing processes and systems—BRITS' beginnings go back more than 5 years. In fiscal year 2000, the Legislature appropriated \$500,000 to the Department to hire a consultant to study its business processes and evaluate its information technology options. This study found that the Department's information technology infrastructure was old and inefficient, and associated business processes did not support the Department's objective to effectively and efficiently serve Arizona's taxpayers. For example, the Department's transaction privilege tax system was built in 1982 and had reached its technical limits, meaning that it could not be modified to meet the Department's needs. In addition, numerous stand-alone databases were developed in isolation, resulting in the need to input taxpayer information multiple times and making it difficult for department staff to quickly view all aspects of a taxpayer's business with the Department.

Following this study, the Department worked with Arizona's State Procurement Office, currently referred to as Enterprise Procurement Services (EPS) to develop a request for proposal for improving the Department's business processes, organizational structure, and information technology. The request for proposal was issued in March 2001, and in August 2002, a state contract was signed with Accenture. As indicated on its Web site, Accenture is a global management consulting, technology services, and outsourcing company that has more than 110 offices in 48 countries.

BRITS being phased in and offers several potential advantages—BRITS, which is being implemented in phases, will provide the Department with several potential advantages. As shown in Table 1 (see page 3), the first phase of the project has been implemented. The completion date for the second phase of the

Table 1: BRITS Components and Implementation Time Frames
as of August 2005

Phase/Component	Description	Implementation Time Frame¹ and Status
Phase 1—Transaction Privilege and Withholding Taxes		September 2002–October 2004 Status: Implemented
Develop core database	Develop a core database to perform the Department's basic tax functions, such as processing taxpayer licenses, tax returns, and payments; issuing bills and refunds; and performing collections and audit processes.	
Convert tax data	Develop the necessary computer programming to convert taxpayer data from the Department's old computer systems into BRITS.	
Create Web-based processing system—AZTaxes.gov	Create a Web-based processing system business taxpayers can use for filing transaction privilege and withholding tax returns and payments.	
Develop a system for creating management reports	Develop a computer application to help department officials create management and ad hoc reports using BRITS data.	
Provide other tools to support audit and collection activities	Provide tools to help find taxpayers who have not filed their taxes, identify taxpayers' correct addresses, determine the probability of collecting back taxes, and determine which collection activities are likely to get the best results.	
Phase 2—Corporate Income Tax		August 2004–July 2006 Status: In process
Enhance core database	Enhance the core database to perform corporate income tax functions such as processing tax returns, payments, and refunds.	
Convert tax data	Develop the necessary computer programming to convert taxpayer data from the Department's old computer systems into BRITS.	
Provide an automated audit application (ESKORT)	Provide an audit application to automate and enhance audit selection activities, case management and tracking, and auditing resources such as standardized templates for Excel spreadsheets and Word documents.	
Phase 3—Individual Income Tax		Not yet established Status: Not started
Enhance core database	Enhance the core database to perform individual income tax functions such as processing returns, payments, and refunds.	
Convert tax data	Develop the necessary computer programming to convert taxpayer data from the Department's old computer systems into BRITS.	
Provide data reading capabilities	The specific activities for this area have not yet been defined, but this area involves the electronic imaging of paper items such as tax returns and correspondence.	
Provide tools to manage relationships with taxpayers	The specific activities for this area have not yet been defined, but this area involves improving customer service.	

¹ The implementation time frame includes all activities related to each phase, including planning, defining system requirements, testing programs, and converting data. It does not include additional support that may be required after implementation.

Source: Auditor General staff analysis of the BRITS contract and project documents, the May 2005 BRITS Program Monthly Status Report, and interviews with department staff.

project has been revised from July 2005 to July 2006 to ensure that sufficient time is taken to fully define system requirements, complete testing, and minimize operational impacts. According to the Department, the scope of the final phase, which involves converting individual income tax, has not been fully defined at this time; therefore, target dates have not been set. Some of BRITS' features include:

- **Consolidation of disparate systems**—BRITS is expected to provide a single system where all tax processing is done rather than several separate systems where only specific parts of the process occur. The BRITS project's three main phases revolve around developing specific components of BRITS and converting data from the Department's old computer systems. For example, as shown in Table 1 (see page 3), the first phase involved designing and implementing the main database where all tax processing activities will occur; developing other BRITS components designed to improve the Department's processes, such as providing tools to help find taxpayers who have not filed their taxes; and converting transaction privilege and withholding tax data from the Department's old system to BRITS. This phase has been implemented as of October 2004. In addition, according to the Department, as a part of the BRITS project, it has received approximately 1,100 desktop and 60 laptop computers.
- **Better service to taxpayers**—BRITS, when fully implemented, is expected to provide the public with the ability to do new things. For example, during the first phase, the Department's Web site was expanded to include AZTaxes.gov, which allows business taxpayers to file transaction privilege and use, as well as withholding tax returns, and remit payments on-line.
- **Improved tools for tax collection**—BRITS also includes tools that will score its collection cases based on the probability of collecting, and determine the collection activities that will most likely result in the Department's collecting the tax money owed. In addition, the BRITS project also provided the Department's field collectors (i.e., those collectors who meet with taxpayers at their business locations) with 50 handheld computers. The handheld computers contain specific information on taxpayers' accounts, including amounts owed, payments made, and prior collections history. This device essentially provides collectors with the ability to perform major job functions, such as initiating payment plans and logging case activity, while in the field.

Department has major responsibility for shaping and staffing BRITS—BRITS is an "indefinite-quantity contract." Such contracts are typically used in situations where, due to a project's size and complexity, it is not possible to know the exact project components up front. Although the general scope of BRITS was known at the time the contract was awarded, according to an EPS official, the specific components of the project—such as products and services and timing of

work—could only be estimated. Therefore, the project components are actually ordered and purchased in pieces as implementation nears and the necessary components can be better defined. The BRITS project refers to each component as a task. EPS officials delegated day-to-day administration to the Department. However, changes to any services or products that affect the overall contract scope cannot be authorized without EPS amending the contract.

BRITS involves many Accenture and department staff resources. According to the Department, Accenture has approximately 70 staff and subcontractors working on BRITS, including a project manager who provides the overall guidance and direction; programmers who program, develop, and execute test plans; support technicians who monitor system performance and provide technical guidance to programmers; and staff who design, develop, and deliver training. The Department indicated that it is also contributing about 65-70 full- or part-time staff to BRITS, including a project manager, information technology staff, and experienced employees who understand the Department's processes and can help articulate system requirements and participate in testing.

Contract features tie payment to enhanced revenues—The contract uses a benefits-sharing funding approach. Under this approach, the vendor finances the contract costs up front and is repaid based on some measurable benefit, such as cost savings or increased revenue.¹ For BRITS, the measured benefit is increased enforcement revenue. Enforcement revenue is tax money the Department receives as the result of its enforcement functions, such as audits, accounts receivable, and collections. According to the Department's annual report, it collected approximately \$490 million in fiscal year 2004. BRITS is intended to generate additional enforcement revenue by making the Department's audit, accounts receivable, and collections processes more effective and efficient. For example, the BRITS project includes implementing programs to identify taxpayers who have not paid taxes, but should have.

The contract provides that Accenture will be paid 85 percent of the additional enforcement revenue generated by BRITS, and the State receives the remaining 15 percent. Specifically, as Accenture incurs costs to implement BRITS, it provides the Department with invoices for the costs. If BRITS has generated additional enforcement revenue, the Department uses 85 percent of that money to pay Accenture's invoices. If BRITS has not generated enough additional enforcement revenue for the Department to pay the invoices, Accenture charges the Department 6 percent annualized interest on the unpaid balance. This process continues until the total cost of BRITS, \$122.65 million plus an estimated \$9-\$13 million in interest, is paid. However, if BRITS has not generated enough additional enforcement revenue to pay the contract costs by the end of the 10-year contract term, the Department will no longer be liable for the unpaid costs. In other words, the Department will no longer pay Accenture and will keep 100 percent of the additional enforcement revenue generated by the system after that time.

¹ A.R.S. §41-2559 authorizes the use of benefits-sharing funding methods.

Auditors interviewed or reviewed materials from several other states with benefits-sharing contracts and found that the general benefits-sharing terms of those contracts and BRITS' were relatively similar, and like Arizona, many used the method because they lacked the resources to pay contract costs up front.¹ For example, representatives from Kansas' Department of Revenue and Virginia's Department of Taxation indicated that the states entered into contracts for automated tax systems priced at approximately \$63 million and \$166 million, respectively, and used benefits-sharing payment methods due to budgetary constraints.

Audit scope and methodology

This audit focused on whether the Department was effectively managing BRITS' implementation and also assessed the enforcement revenue that is subject to the contract's benefit-sharing requirements and the potential impact of changes being made to the BRITS contract. The audit did not include an assessment of BRITS' vendor or the vendor's efforts to manage the BRITS project. This audit report presents three findings and associated recommendations:

- The Department could do more to ensure it effectively manages BRITS' implementation and that BRITS will meet its needs. The first phase of the BRITS implementation was problematic and hindered the Department's ability to perform some basic functions, including billing taxpayers for taxes owed. The Department may have minimized these problems if it had hired an outside advisor as it had originally outlined in the contract and had assigned additional knowledgeable staff to the project. The Department has taken steps to improve its project management, but could better ensure success by more closely following IT project management best practices.
- Problems with BRITS, in part, have resulted in the Department's generating approximately \$9.3 million less than expected for one type of enforcement revenue, based on department information. Lower enforcement revenue is hindering the Department's ability to pay for the contract in a timely manner resulting in the State's paying additional interest. The Department needs to continue working with Accenture to improve BRITS-generated revenue and, although not required, should also continue to include information about this enforcement revenue type in its monthly status report.
- The Department made changes to the BRITS contract that could affect the overall contract scope. Despite this, the Department did not consult procurement experts to ensure the changes were in the State's best interest and

¹ Auditors interviewed representatives and reviewed various contract-related materials from California, Hawaii, Kansas, Massachusetts, Missouri, North Carolina, and Virginia; and reviewed an audit report from Florida. For most of these states' contracts, either the state was charged interest or, if interest was not charged, there was no dollar limit on the total amount of benefits to be paid to the vendor. Of the four states to be charged interest, Virginia and Missouri were charged 10 percent and 8 percent annual interest rates, respectively. Auditors were not able to determine the annual interest rate for California and Hawaii.

within legal requirements, such as contract terms and procurement rules, and did not adequately document the changes. The Department should improve its communication and documentation of contract changes to help ensure the changes are appropriate.

Various methods were used to study the issues addressed in this audit. These methods included interviews with legislative staff, including Joint Legislative Budget Committee staff; department management and staff; Accenture representatives; and staff from the Government Information Technology Agency (GITA). Auditors also reviewed Arizona Revised Statutes, the BRITS Project and Investment Justification and monthly status reports that the Department submitted to GITA, and the BRITS contract, including the Request for Proposal and Accenture's proposal and best and final offer.

Auditors also used the following specific methods:

- To determine whether the Department was appropriately managing BRITS' implementation and project activities were consistent with best practices, auditors interviewed more than 30 department staff involved in BRITS' implementation, reviewed project documents, and also obtained and reviewed best practice materials related to information technology project management.¹ Auditors then compared the best-practice information to the contract requirements, Accenture documents, and department information about what it was doing to manage BRITS implementation. In addition, auditors reviewed contract materials and interviewed officials from Hawaii's Department of Taxation because it used quality assurance contractors to oversee information technology contracts. Auditors also observed staff using the BRITS system to identify specific functions staff could not perform due to BRITS' implementation problems.
- To assess enforcement revenue that is subject to the contract's benefits-sharing requirements, auditors obtained and reviewed documentation from the beginning of the project through May 2005, such as spreadsheets related to the Department's calculation of enforcement revenues generated by BRITS. Specifically, auditors reviewed this material to determine the amount of revenue BRITS had generated and whether the process for calculating the revenue was within the contract's requirements. To evaluate the Department's method of tracking BRITS' costs, auditors reviewed the Department's cost-tracking

¹ Best practice materials used included: (1) Charvat, Jason. *Project Management Nation: Tools, Techniques, and Goals for the New and Practicing IT Project Manager*. New York: John Wiley and Sons, Inc., 2002; (2) IT Governance Institute. 2004. "Control Objectives for Information and Related Technology (COBIT) Online, v3.1." www.itgi.org (Nov. 19, 2004); (3) North Carolina State Government, Information Resource Management Commission. Office of Information Technology Services. *Implementation Framework for Statewide Technology Projects: Best Practices and Standards*. North Carolina State Government, April 2004; (4) Project Management Institute, Inc. *A Guide to the Project Management Body of Knowledge*, 3rd ed. Pennsylvania: Project Management Institute, Inc., 2004; (5) State of Arizona Government Information Technology Agency (GITA). "Best Practice Checklist." www.azgita.gov/downloads/ (November 2004); (6) Taylor, James. *Managing Information Technology Projects: Applying Project Management Strategies to Software, Hardware, and Integration Initiatives*. New York: AMACOM, 2004; and (7) U.S. Department of Labor. *IT Project Management*. Washington, D.C.: DOL, Jan. 2003.

spreadsheets and selected a sample of nine invoices from the period ranging from project inception through October 2004. Finally, auditors obtained and reviewed various sources of literature about benefits-sharing contracts, and interviewed representatives and/or reviewed materials from eight other states that have used benefits-sharing contract funding methods.¹

Auditors' efforts in this area focused primarily on the processes the Department uses for calculating BRITS-generated enforcement revenue. Specifically, auditors reviewed those processes to ensure that they met the contract's benefits-sharing requirements. For example, auditors ensured that the Department was measuring the appropriate types of enforcement revenue, adjusting baselines for unusual events, and taking steps to ensure enforcement revenue was not double-counted. Auditors did not attempt to validate the accuracy of the Department's calculations and did not assess the appropriateness of the contract's benefits-sharing terms or whether those terms are favorable to the State.

- To assess the changes made to the BRITS' contract and the impact the changes would have on the contract's price, auditors analyzed the contract terms regarding price and how changes or amendments to the contract should be handled. In addition, auditors obtained and reviewed department information from the beginning of the contract through March 2005 regarding the price and the scope of the contract's tasks that had been started and any changes that had occurred. This information was used to assess the effect of any changes on the contract's price and requirements and to determine whether the documentation supporting the changes was adequate. Auditors also obtained and reviewed general information about indefinite-quantity contracts, and interviewed management and staff from the Arizona Department of Administration, Financial Services Division, Enterprise Procurement Services, about specific terms and requirements of the BRITS contract.
- To develop the Introduction and Background section, auditors compiled information from state laws, unaudited information from the Department's 2004 Annual Report, its Web site, and other department-prepared documents; the BRITS contract; the fiscal year 2000 *State of Arizona Appropriations Report*; a 2001 Gartner Consulting report presented to the Department; and Accenture project documentation and information from its Web site.

The audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the director and staff of the Department of Revenue for their cooperation and assistance throughout the audit.

1 As noted previously auditors interviewed representatives and reviewed various contract-related materials from California, Hawaii, Kansas, Massachusetts, Missouri, North Carolina, and Virginia; and reviewed an audit report from Florida.

FINDING 1

Department needs to better manage BRITS project

The Department could do more to ensure that it effectively manages BRITS' implementation and that BRITS will meet its needs. The first phase of BRITS' implementation was problematic and hindered the Department's ability to perform some basic functions, including billing taxpayers for taxes owed. These problems may have been minimized if the Department had hired an outside advisor as it had originally outlined in the contract and had assigned additional knowledgeable staff to the project. The Department is taking steps to improve project management, but could better ensure success by more closely following IT project-management best practices.

BRITS' problems affecting Department's ability to perform some basic functions

Problems that occurred during the initial phase of the BRITS implementation have resulted in BRITS not functioning as intended in some areas. These problems have impacted the Department's ability to collect revenue or to perform functions that were working properly before BRITS was implemented.

Problems experienced in converting data—According to the Department, by January 2004, demographic information for the transaction privilege (commonly known as sales tax) and withholding tax types had been converted to BRITS. Information that was converted included business taxpayer names and identification numbers, and some accompanying financial information for the transaction privilege tax type such as the amount taxpayers owed to the State. However, the data did not convert correctly in some cases. For example, over 7,500 (amounting to more than \$28 million) of the approximately 87,000 transaction privilege tax accounts-receivable items did not correctly convert. Following the conversion, the Department spent several months investigating these accounts and was able to correct all but approximately \$2 million of this receivable balance by June 30, 2004.

Transaction privilege and withholding tax bills were backlogged due to BRITS problems.

Problems experienced in issuing bills and refunds—Some billings were incorrect, which also affected some refunds. Due to problems with implementing the transaction privilege tax (TPT, commonly known as sales tax) portion of BRITS, the Department had to manually review and correct TPT bills before sending them to the taxpayers, in turn causing a backlog of bills to be mailed. Specifically, approximately 6 months after the Department began processing transaction privilege tax returns in BRITS (June 30, 2004), bills had not been sent for over 17,000 taxpayer liabilities totaling nearly \$45 million.

Similarly, according to the Department, bills for withholding tax accounts were also backlogged, and although the demographic information had already been converted, the financial information for withholding tax accounts was not converted to BRITS until October 2004. The bills for converted withholding tax accounts as well as those associated with the first quarter of calendar year 2004 were not processed until January 2005, and those associated with the second quarter 2004 were not processed until June 2005. The Department is taking steps to address these issues by working with Accenture to make necessary programming changes to BRITS. Additionally, according to the Department, as of August 2005 it was completing the processing of third and fourth quarter 2004 withholding returns and issuing the bills associated with these time frames. However, in part because of BRITS' billing problems, the Department could not initially collect the tax monies owed to the State that were associated with these bills. Additionally, problems with billing in some cases also affected the Department's ability to issue refunds. According to a department official, the Department had to check taxpayer accounts to determine whether a refund was actually owed to the taxpayer, or whether it needed to be applied to a previously underpaid period.

System could not process one-time-only license numbers—Following BRITS' initial implementation, the Department was able to collect the revenue for one-time-only transactions, but it could not create the one-time-only license numbers and process the returns associated with these transactions until January 2005. A license must be established with the Department to file and pay transaction privilege (sales) taxes, and sometimes a license number is needed for one transaction only. For example, if an Arizona resident buys a vehicle out-of-state that will be used in Arizona, the Department needs to establish a one-time-only license number for the individual so that the Department can appropriately record the tax that must be paid in Arizona. According to the Department, these license numbers could not be created in BRITS because the system programming was not done.

Department did not initially involve enough key people

When the Department began the BRITS project, it underestimated the level of key staff required, and although its project management has improved, the Department can do more. The Department did not hire an outside advisor to help it manage the project, nor did it initially involve some of the most knowledgeable department IT staff who had experience with the previous computer systems. The Department has taken some steps to involve a greater number of more knowledgeable staff, but it could still benefit from outside assistance.

Outside advisor not hired—BRITS' implementation issues may have been minimized if the Department had hired an outside advisor as outlined in the BRITS contract. The BRITS contract contains a clause indicating that the Department intended to hire an "oversight advisor" who was not affiliated with the project. The advisor was to report on BRITS' progress, risks, and budget to department executive management and the Government Information Technology Agency and to, among other things, audit the contractor's performance and make advisory recommendations to the director. Department officials indicated they were not certain why an outside advisor was not hired, but indicated that cost may have been a factor.

Hiring an outside advisor may have prevented or at least helped identify and mitigate the BRITS implementation problems. For example, in 2003, Hawaii's Department of Taxation hired an outside advisor for approximately \$200,000 a year to provide quality assurance consultant services for its integrated tax system project. The contract called for the consultant to, among other things, review project work plans for sufficiency, identify project risks and recommend preventive measures, evaluate project staffing levels, determine whether the project design is compatible with the agency's requirements, and evaluate the readiness of business and technical users who have received training. A Hawaii Department of Taxation official who auditors spoke with indicated that using an outside advisor was helpful and that a benefit of such an advisor is that they can alert the agency to things that should or should not be occurring on the project. For example, the official mentioned that the agency had the quality assurance contractor look into whether testing was being done to specifications.

An outside advisor may have helped to mitigate BRITS implementation problems.

Shortage of key staff involvement and project management changed—The Department indicated that it did not involve a sufficient level of the most knowledgeable department staff and that there was turnover in the project manager position. For example, some department managers indicated that an insufficient number of department IT staff who were experienced with the previous computer systems were involved in the BRITS project. In addition, the BRITS implementation has been managed by four different department project managers

and two different Accenture project managers since it began. The Department's first project manager was experienced in business activities, but did not have IT project management experience, and the Department's second project manager had IT experience, but only managed the project for 7 months.

Department has some improvements under way—Although the Department did not hire an outside advisor for BRITS, it has taken steps to better control the project. The Department's third and fourth project managers have extensive IT project management experience. In addition, the Department formed an internal oversight committee consisting of the Department's deputy director and division assistant directors, and the Department's and Accenture's project managers. This committee now oversees the work being done to correct problems from the initial phases of the BRITS implementation and make decisions concerning the future phases of the project. For example, according to department management, this committee participates in the decisions to adjust the timeline to allow more time to outline the specific functions the system needs to perform, and has the authority to recommend postponing the next conversion if it is not satisfied the Department is ready. Further, according to department management, its IT division staff have become more involved and have taken on some BRITS' support functions. For example, department IT staff are responsible for supporting the segment of BRITS that is used to create reports by performing tasks such as providing user training and creating requested reports. Additionally, department IT staff are involved in the decision-making process to determine when BRITS system problems will be corrected.

Hiring outside advisor may still be beneficial—Even though two tax types have already been converted to BRITS, and the Department is taking steps to more effectively manage the project, it should still consider hiring an outside advisor to help oversee the remaining implementations. To do so, the Department would have to examine possible funding methods, such as allocating monies from its current budget, or seeking a separate appropriation from the Legislature. Based on the Hawaii contract, it may cost approximately \$200,000 a year. According to the Department, its IT staff are experienced with the systems that BRITS is replacing; however, it does not currently have the level of expertise in terms of software, requirements gathering, system design, and programming skills that Accenture has. In addition, even though the current department project manager has IT project experience, the assistance of an outside advisor with significant IT project management experience could still help the department better manage the project by providing impartial observation and by pointing out possible improvements or issues that the Department may not recognize.

Department can do more to follow best practices

Whether or not an outside advisor is hired, the Department will need to continue improving its project management. Auditors' comparisons between the

Department's efforts and IT project management best practices showed that while the Department is making progress, it could follow these practices more closely to further improve its management and increase the chances of project success:

- **Planning the project**—Although Accenture did create a project master planning document for the BRITS project, the Department did not create planning documents to guide its own management of the project in order to ensure the BRITS contract terms are fulfilled and the project is successful. Best practices indicate that a project plan should be developed containing, among other things, a statement of the project's scope, details of project deliverables, and estimates of required resources and responsibilities. Accenture developed a project plan for BRITS as its overall guiding document for the project. Although the plan appears to be consistent with best practices and contains elements such as a project description, staff roles and responsibilities, and a project timeline, it is mainly a guide for Accenture's management of the project, not the Department's. In light of the problems experienced with the first phase of the BRITS implementation, the Department should develop and periodically update a project management plan that outlines items such as the methods it will use to ensure that Accenture is meeting requirements, the criteria and process it will use to create and approve the deliverables, and the resources the Department will commit to the project along with staff responsibilities.
- **Defining requirements**—The Department worked with Accenture prior to the first implementation phase to determine what functions it needed the system to perform, but it did not ensure that these system requirements were adequately defined. Best practices indicate that there should be clear, concise requirements written and communicated to the vendor, the vendor should ensure that they are precisely interpreted, and the vendor and customer should be in complete agreement about the project intent and desired results.¹ Because BRITS is an indefinite-quantity contract, the specific requirements were expected to be defined during implementation. Department management acknowledged that an insufficient number of both system users and key department staff were involved in articulating the Department's requirements. In addition, department management also acknowledged that for BRITS' initial phases, the Department's requirements were not clearly defined and detailed enough.

The Department is taking steps to ensure that its requirements are better defined for BRITS' next phase. Specifically, the Department is ensuring that more detailed processing flowcharts are created, that the defined processes are reviewed by knowledgeable staff from more than one division, and that these requirements are approved by the Department's division assistant directors. When auditors reviewed a requirements document created for the next tax type to be converted, corporate income tax, they found it to be more detailed than

The Department should develop its own BRITS project management plan.

¹ Taylor, James. *Managing Information Technology Projects: Applying Project Management Strategies to Software, Hardware, and Integration Initiatives*. New York: American Management Association, 2004.

those created for the first tax type, transaction privilege tax. To prevent some of the issues that occurred in BRITS' initial phases, the Department should continue its efforts to include the most knowledgeable staff in better defining the Department's requirements of the BRITS system and ensuring that both the Department and Accenture agree on what those requirements are until the BRITS project is complete.

- **Assessing risks**—The Department appears to have risk management processes in place that conform to best practices. Best practices indicate that a formalized, documented set of guidelines and procedures should be implemented for risk management. Accenture developed a Risk Management Plan that provides guidance on how to identify, analyze, and mitigate risks.

Further, Accenture works with the Department to produce a risk assessment document that contains information about project risks and how they should be mitigated. Risks may come from internal or external sources and can affect project costs, schedules, and quality. For example, possible external risks to the BRITS project include last-minute changes in legislation that can affect the project schedule, or the inexperience of some Accenture staff that can affect project quality. Internally, there is a risk to the BRITS project if certain outstanding issues from the first phase

are not resolved when converting the next tax type. The Department plans to mitigate this risk by identifying the priority issues that can affect the next conversion and adding new programmers to work on them. According to the Department, a monthly meeting is held to reevaluate the risks and mitigation measures. To remain aware of and plan for project risks, the Department should continue its efforts to identify, document, and mitigate risks until the project is complete.

- **Testing whether functions work**—The Department could better ensure that BRITS is adequately tested prior to implementation. Although testing plans were written for the initial phase of BRITS, testing may have been inadequate because users were not involved soon enough before implementation. Best practice standards indicate that testing plans are important. Specifically, best practices indicate that complete and detailed test plans should be developed, and that system and program designs must be tested to ensure that they will work as intended. In line with best practice standards, Accenture's test plan contains information describing the objectives and strategy for testing and provides information about the different types of tests to be performed, such as user testing in which department staff will test the system using their business and operational procedures.

Even though Accenture developed testing plans, several department management and staff members had concerns about the amount of testing that occurred during the first phase of the project. Best practices indicate that an

Internal and External Project Risks

Internal

- Technical Failures
- Delays in Scheduled Work
- Project Staff Errors

External

- Legislative Changes
- Vendor Staff Inexperience

adequate amount of thorough testing is essential to project success and that user-testing should be performed. One of the Department's project managers indicated that, prior to the transaction privilege tax implementation, there was not enough time for users to fully test the system. Specifically, the users did not get involved with testing until about 6 weeks before the conversion occurred. According to the project manager, system users should have been testing for about 3 months prior to implementation in order to get through all the necessary test scenarios and retest the things that did not initially work right. Therefore, the Department should ensure that system users are involved with testing as early as possible, and that an adequate amount of time is taken prior to conversion to perform testing, and correct and retest the problems that are found.

- **Training users and IT staff**—Despite following some best practices for training, initial user and IT staff training was inadequate and could impact the Department's ability to effectively use, operate, or maintain BRITS. Training best practices suggest that training should be planned for both system users and the IT staff expected to maintain it. Further, best practices indicate that a training plan should be developed that includes information such as who will be trained, what they will be taught, and when training will occur. Therefore, training must address the needs of users and IT staff, and they should be adequately trained prior to implementation. Accenture developed training plans that provided an overview of its training strategy and outlined some of the classes to be given to users and IT staff. In addition, according to Accenture training staff, department staff approved the classes' content.

Training should be sufficient to ensure that users can use the system and IT staff can maintain it.

Despite Accenture's preparations, BRITS training during the initial phase was not adequate according to department staff. For example, some staff indicated that the initial BRITS training was not detailed enough for the specific job functions they had to perform, and that sometimes during training, computer errors occurred that prevented them from training on certain functions. For example, one staff member indicated that the system they used for BRITS training did not work, and when BRITS was implemented, staff did not know how to perform some functions such as filing liens.¹ In addition, a department project manager indicated that formal, technical training for IT staff occurred several months after implementation in 2004, and it should have been done much sooner. A best practice source indicates that before implementing a project, management should ensure that IT operational support staff is adequately trained since they will be responsible for maintaining the system once it is handed over.²

The Department's training issues have been communicated to Accenture, and Accenture has updated its overall training plan. The updated plan indicates that

¹ To protect the State's financial interests, the Department has statutory authority to file liens whenever taxes are owed to the State. For example, the Department can file property liens with each of Arizona's 15 county recorders that prevent the taxpayer who owes state taxes from buying, selling, or borrowing against the property until the lien is resolved.

² Charvat, Jason. *Project Management Nation: Tools, Techniques, and Goals for the New and Practicing IT Project Manager*. New York: John Wiley and Sons, Inc., 2002.

the training classes will focus on each group of users' specific needs, there will be more opportunity for "hands-on practice," and the training will be given to users as close in time as possible to when the next phase of BRITS is implemented. Further, according to Accenture, the computer training environment that users will practice on has been redesigned and appears to be working well. Finally, according to the Department, IT staff training has been occurring since September 2004 and is ongoing. The Department should continue to ensure that future training will address previous training problems and will allow the Department to effectively use, operate, and maintain BRITS.

- **Assessing system security**—Though BRITS is a new system and not fully implemented, because of the sensitive nature of the BRITS data, BRITS

information security policies and procedures should be put in place, and according to best practices, security assessments should be performed to ensure compliance with those policies and procedures. Some security elements that should be covered by policies and procedures include system access controls, audit trail creation and analysis, data encryption management, virus protection, and intrusion detection and prevention (see text box). The Department has begun developing information security policies and procedures, and according to the Department, it has already addressed some of the security elements they should contain. For example, the Department contracts for a yearly independent security assessment that covers intrusion prevention and detection. In addition, according to the Department, it performs some assessment procedures over user system access by creating an annual system access report that must be reviewed for accuracy by the unit managers within each division. However, the Department's policies and procedures have not yet been completed, reviewed, and adopted as department-wide standards. Therefore, to ensure the BRITS system is secure and sensitive data is protected, the Department should complete and implement its information security policies and procedures as soon as possible. In addition, to conform to best practices, the Department should periodically perform security assessments to determine if its policies

and procedures are being followed and that they adequately ensure system security.

- **Ensuring requirements are met**—Even though the contract requires it, the Department does not have a formal plan for how it will ensure that the BRITS

Best Practice Security Elements Defined

System Access Control—The process that limits and controls access to a computer system; a logical or physical control designed to protect against unauthorized entry or use.

Audit Trail Creation and Analysis—A visible trail of evidence enabling one to trace information contained in statements or reports back to the original input source.

Data Encryption—The process of taking an unencrypted message, applying a mathematical function to it, and producing an encrypted message.

Virus Protection—A method of detecting and removing an unauthorized program or code buried within an existing program that will cause some unexpected and undesirable event when the program is executed.

Intrusion Detection and Prevention—The process of monitoring the events occurring in a computer system or network to detect signs of security problems.

Source: Definitions obtained by Auditor General staff from Information Systems Audit and Control Association, COBIT Online Glossary, and the Arizona Government Information Technology Agency Web site.

project requirements are being met. Best practices indicate that a post-implementation review plan should be created and that post-implementation reviews should be conducted in a timely manner. These reviews would include activities such as assessing whether expected benefits have been achieved; whether the project met its schedule, budget, and user expectations; and determining improvements that could be made on future projects. While these reviews may typically be done at the end of a project, because the BRITS project is so large and complex, it would be useful to perform reviews as the project unfolds. The Department has done some things that would partially fulfill a post-implementation review. For example, the Department is in the process of comparing the BRITS contract requirements to what was delivered during the first phase to identify requirements that have not been met. However, to help with the project's planning and execution of future phases, the Department should develop and follow a formal post-implementation review plan, as stated in the BRITS contract, that outlines how and when it will perform the reviews.

- **Improving the project along the way**—Post-implementation review also involves determining how to improve along the way. For example, best practices indicate that meetings should be held to identify project successes and failures and make recommendations for improving future performance. After the first phase of the BRITS project was implemented, according to an Accenture official, the Department and Accenture held a “lessons learned” session to solicit feedback from department staff. Lessons-learned comments included Accenture developers not adequately listening to staff to learn about what the Department's requirements were, department staff not knowing what they needed to look for when testing, and BRITS' outdated and unstable training environment. According to the Department and Accenture, some of the lessons-learned issues are now being addressed in the project's next phase. For example, as indicated above, experienced department staff and Accenture are working together to gather in-depth requirements to be used when designing the next phase of BRITS. These requirements are being approved by the Division's assistant directors. Until the project is complete, the Department should continue to hold lessons-learned sessions at appropriate points during the project and should document and use the results of these meetings to improve BRITS' implementation.

Post-implementation reviews assess issues such as whether expected benefits have been achieved, and determine what can be improved on future projects.

Recommendations

1. To take advantage of expert project management advice, the Department should consider hiring an outside advisor to oversee the remaining implementation of BRITS and fulfill the outside advisor's requirements that are described in the BRITS contract. To do so, the Department would have to examine possible funding methods, such as allocating monies from its current budget, or seeking a separate appropriation from the Legislature
2. To better ensure success and to ensure that the terms of the BRITS contract are fulfilled, the Department should develop and follow its own overall plan to manage the project.
3. To prevent some of the issues that occurred in the initial phases of BRITS, the Department should continue its efforts to include key stakeholders in better defining the Department's requirements for the BRITS system and ensuring that both the Department and Accenture agree on what those requirements are until the BRITS project is complete.
4. To remain aware of and plan for project risks, the Department should continue its efforts to identify, document, and mitigate risks until the BRITS project is complete.
5. To make certain that all necessary functions of the system are working prior to conversion, the Department should ensure BRITS testing is adequate, including:
 - a. Getting system users involved with testing as early as possible, and
 - b. Making sure that an adequate amount of time is taken to perform testing, and correct and retest any problems.
6. To ensure that all department staff can perform their jobs using BRITS, the Department should continue to ensure that future training will address previous training problems and will allow the Department to effectively use, operate, and maintain BRITS.
7. To ensure the BRITS system is secure and sensitive data is protected, the Department should:
 - a. Complete and implement policies and procedures that govern system access controls, audit trail creation and analysis, data encryption management, virus protection, and intrusion detection and prevention; and,
 - b. Perform security assessments periodically to determine if its policies and procedures are followed and adequately ensure system security.
8. To help with the planning and execution of future phases of the project, the Department should develop and follow a formal post-implementation review plan, as stated in the BRITS contract, that outlines how and when during the project it will perform the reviews.
9. To increase the chances of success, until the project is complete, the Department should continue to hold lessons-learned sessions at appropriate points during the project and should document and use the results of these meetings to improve BRITS' implementation.

FINDING 2

BRITS not generating additional revenue as expected

Although the contract is funded through increased enforcement revenue, BRITS has not yet increased revenue as expected. BRITS appears to be generating two of the three types of enforcement revenue that are measured—discovery revenue and license compliance baseline revenue. However, BRITS has not been consistent in generating the third enforcement revenue type, efficiency revenue, which appears to be the result of problems with the system's implementation. Because this poses negative financial implications to the State, the Department should continue its efforts to improve enforcement revenue. The Department should also continue to clearly report, in its monthly status report, information about whether BRITS is generating additional enforcement revenue.

BRITS increasing some enforcement revenue types

The BRITS contract is paid from additional enforcement revenue deemed to have been generated by the new system. Specifically, the contract provides that Accenture will be paid 85 percent of the additional enforcement revenue and the State receives the remaining 15 percent until the total cost of the BRITS project, \$122.65 million plus interest, is paid, or the 10-year contract term expires. Based on department information, BRITS appears to be generating two types of enforcement revenue, which are discovery revenue and license compliance baseline revenue:

- **Discovery revenue**—Discovery revenue is the money that the Department collects from nonfilers identified by BRITS, or from taxpayer liabilities the Department was unable to collect before implementing BRITS. For example, BRITS includes discovery programs that match department data with various types of data from cities, counties, and other state agencies to identify individuals and businesses that are not paying taxes, but should be. Identifying the amount of BRITS-generated discovery revenue is relatively simple, as each dollar can be traced to a specific taxpayer and BRITS discovery program. According to department information, as of May 2005, BRITS had generated

approximately \$9.1 million in discovery revenue, 85 percent of which was paid to Accenture (approximately \$7.7 million), as outlined in the contract.

- **License compliance baseline revenue**—License compliance baseline revenue is the money that the Department collects because BRITS has improved the efficiency of its license compliance function, which involves staff finding businesses that are unlicensed. For example, BRITS automated the data matching process the Department uses to identify unlicensed businesses. To determine the amount of license compliance baseline revenue, the Department compares its monthly license compliance revenue to a baseline dollar amount, which is intended to represent license compliance revenue the Department would have collected without BRITS. Any revenue above the baseline amount is considered BRITS-generated license compliance baseline revenue. The Department began measuring license compliance baseline revenue in July 2004. According to department information, as of March 2005, BRITS had generated approximately \$6.6 million in license compliance baseline revenue, 85 percent of which was paid to Accenture (approximately \$5.6 million), as outlined in the contract.

BRITS not consistently generating one revenue type

BRITS has not consistently generated the other type of enforcement revenue, efficiency revenue. For several months, the Department actually collected less enforcement revenue than it expected to collect without BRITS. This appears to have been caused by BRITS' inability to generate accurate bills for taxpayers' unpaid liabilities. Because this type of enforcement revenue has been lower than expected, payments to Accenture have been delayed, and the State may ultimately incur more interest charges. However, the Department is making an effort to improve enforcement revenue, and should continue to do so.

BRITS not generating efficiency revenue—BRITS has been less successful in generating the third type of enforcement revenue that is used to pay Accenture—efficiency revenue. Efficiency revenue is basically all enforcement revenue other than discovery revenue and license compliance baseline revenue that the Department receives because BRITS has improved its enforcement activities' efficiency (i.e., its audit, accounts receivable, and collections functions). For example, BRITS includes a receivable scoring system that allows collectors to focus on those liabilities that are more likely to be paid.¹

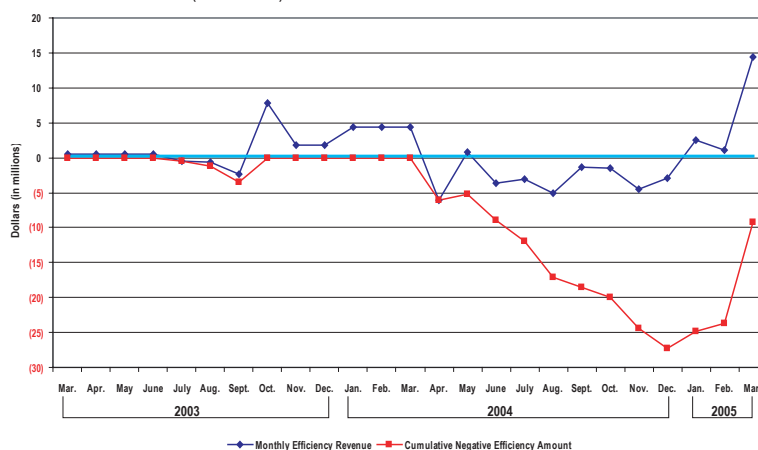
Determining the amount of efficiency revenue generated by BRITS is a fairly complicated process. Specifically, similar to license compliance baseline revenue, the Department determines its efficiency revenue by comparing its monthly enforcement revenue (excluding discovery revenue and license compliance revenue)

• 1 The receivable scoring system BRITS provided was developed by the Fair Isaac Corporation and uses various analytical models to calculate the probability of collecting tax debts. The Fair Isaac Corporation provides decision analytics products and services that enable businesses to automate and improve the decision-making process.

to a baseline dollar amount, which is intended to represent enforcement revenue the Department would have collected without BRITS. Although the contract does not require the baseline to be adjusted for population growth or economy changes, it does require the baseline to be adjusted when significant events occur that affect enforcement revenue. For example, the Department had to adjust the baseline for the amnesty program it implemented from September 1, 2003, to October 31, 2003. For the amnesty program, the Department waived civil penalties and reduced interest on taxpayer liabilities to encourage payment, which in turn temporarily increased enforcement revenue.¹ Further complicating the process of determining efficiency revenue is the fact that, because the system is not yet fully implemented and has some programming problems, the enforcement revenue that is compared to the baseline is recorded in several different systems and must be manually calculated.

Based on department information, it appears that BRITS has actually generated less than the baseline amount for several months. When the Department compares the monthly enforcement revenue to the baseline, any revenue above the baseline amount is considered BRITS efficiency revenue. As with the other enforcement revenue types, 85 percent of efficiency revenue is used to pay Accenture for the cost of BRITS. Based on the Department's calculations, BRITS generated nearly \$23.2 million in efficiency revenue earlier in the project (see Figure 1). However, if enforcement revenue is below the baseline, then no BRITS efficiency revenue was generated, and the amount below the baseline can be considered a negative efficiency amount. For example, if the Department's monthly baseline amount was \$1.5 million and monthly revenue was only \$1 million, then there would be a negative \$500,000 efficiency amount. Further, the negative efficiency amounts are added together. Specifically, the enforcement revenue that the Department collects each month was below the baseline amount for each month between June 2004 and December 2004, resulting in a cumulative negative efficiency amount of approximately \$27.3 million, as of December 2004 (see Figure 1). As of March 2005, the Department's cumulative negative efficiency amount had improved, but was still \$9.3 million.²

Figure 1: BRITS Efficiency Revenue (Negative Efficiency Amounts)
March 2003 through March 2005
(Unaudited)



Source: Auditor General staff analysis of BRITS efficiency revenue calculations obtained from the Department of Revenue for the months of March 2003 through March 2005.

¹ According to the Department's *2003 Arizona Tax Amnesty Program Final Report*, published in December 2004, the Department collected over \$72 million in enforcement revenue under the Tax Amnesty Program.

² As of September 8, 2005, the Department was in the process of finalizing efficiency revenue calculations for April through June 2005. However, department officials indicate that, based on preliminary calculations, they expect to realize enough efficiency revenue from those months to eliminate the cumulative negative efficiency amount.

Billing problems affecting efficiency revenue—The primary cause of the negative efficiency amounts appears to be related to BRITS' inability to generate accurate bills for taxpayers with unpaid tax liabilities. Due to problems with implementing the transaction privilege tax portions of BRITS, the Department had to manually review and correct the bills before sending them to the taxpayers, in turn causing a backlog of bills to be mailed. Specifically, approximately 6 months after beginning to process transaction privilege tax returns in BRITS (June 30, 2004), bills had not been sent for over 17,000 taxpayer liabilities totaling nearly \$45 million. Similarly, according to the Department, bills for withholding tax accounts were also backlogged. Specifically, bills associated with the first quarter of calendar year 2004 were not processed until January 2005, and those associated with the second quarter of 2004 were not processed until June 2005.

Lack of enforcement revenue negatively impacts the State—In addition to the State receiving less enforcement revenue, the drop in efficiency revenue also means that contract payments to Accenture are being delayed, which has potential financial implications for the State. Specifically, the longer enforcement revenue is low and Accenture invoices remain unpaid, the more interest the State accrues for the project. Under the contract, it was estimated that Accenture would incur costs before additional enforcement revenue was generated, and the State would pay between \$9 and \$13 million in interest. According to department information, as of March 2005, the Department had incurred approximately \$4.5 million in interest and had nearly \$43 million in outstanding invoices.¹ Although Accenture is being paid with discovery and license compliance baseline revenue, it currently is not being paid with efficiency revenue. Although the Department's figures suggest that BRITS is again starting to generate efficiency revenue, the BRITS contract provides that before Accenture can be paid from efficiency revenue, any negative efficiency revenue amounts must be earned back. In other words, the Department will need to collect enough money above the baseline to cover the \$9.3 million cumulative negative efficiency amount and continue to collect revenue above the baseline before additional efficiency revenue can be paid to Accenture. This requirement is consistent with the contract's performance-based intent because it limits payments to Accenture until BRITS improves the Department's enforcement functions' efficiency.

Efforts being made to increase enforcement revenue—Although BRITS appears to be generating efficiency revenue again (see Figure 1, page 21), the Department and Accenture are taking steps to further improve overall enforcement revenue. Specifically, department officials indicate that the Department has dedicated staff to review bills and work with Accenture to resolve BRITS problems that cause billing inaccuracies. In the meantime, the staff also develops temporary solutions to allow bills to be sent to taxpayers.

The State accrues interest when enforcement revenues are low and Accenture invoices remain unpaid.

¹ The nature of BRITS' implementation involves a lag between the time Accenture incurs and invoices BRITS costs, and the time BRITS generates enforcement revenue to pay the invoices. Therefore, even if revenue was being generated at the expected rate, the Department would accrue some interest charges. It is not yet possible to determine if the additional interest charges from the payment delays will cause the Department to exceed the \$9 to \$13 million estimate.

The Department has also developed the BRITS Discovery Team, charged with increasing enforcement revenue. This team, staffed by department and Accenture employees, focuses on improving existing BRITS discovery programs and creating and implementing new ones. According to the team's administrators, as of June 2005, the team was in the process of implementing two new discovery programs. The team's administrators indicate that the team's ultimate goal is to consistently generate \$750,000 of additional enforcement revenue per month.

Department should continue to provide detail on enforcement revenue

Until recently, the Department was not reporting adequate detail about BRITS' enforcement revenue. The Department is required to prepare and submit a monthly project status report to the Government Information Technology Agency (GITA), and the Department also distributes the report to its Joint Legislative Budget Committee analyst and members of the BRITS Oversight Committee.^{1,2} This report includes information on project costs and payments to Accenture. Although no requirements were established for the information that the report should include, prior to June 2005, the report combined the amounts of each revenue type into one amount and compared that figure to the amount of revenue BRITS was expected to earn on a quarterly basis. The report did not include information about negative efficiency amounts that the Department incurred and the fact that the cumulative negative efficiency amount must be earned back before Accenture can be paid any future efficiency revenue. Therefore, the Department was not providing a complete picture of BRITS-generated enforcement revenue. To its credit, the Department began reporting enforcement revenue types separately and disclosing information about negative efficiencies in its June 2005 report in response to auditor recommendations.

In June 2005, the Department improved its reporting of enforcement revenues and negative efficiencies.

¹ This status report was added as a requirement by the Information Technology Authorization Committee (ITAC) during its review of the BRITS Project Investment Justification (PIJ) document. ITAC is composed of representatives from the Legislature, private industry, local and federal government, state agencies, and the courts, and is responsible for reviewing and approving state agencies' information technology projects costing more than \$1 million. GITA and ITAC require agencies to prepare a PIJ for projects under review, which is a business case that reports the project's business and technical requirements, value to the public, costs, scope, risks, and information on the Department's management and technical skills.

² The BRITS Oversight Committee meets periodically to discuss the progress of all active BRITS projects. Committee members include an economist and representatives from the Department, Accenture, GITA, various state agencies, the Arizona League of Cities and Towns, and Pinal County.

Recommendations

1. The Department should continue to work toward improving BRITS-generated revenue for the remainder of the contract term. Specifically, the Department should continue to work with Accenture to:
 - a. Resolve BRITS' inability to generate accurate collections notices, thereby increasing efficiency revenue, and
 - b. Improve existing BRITS discovery programs and identify and implement new programs.
2. The Department should continue to report the following information about BRITS enforcement revenue in its monthly Project Status Report to GITA:
 - a. The amounts of discovery revenue, license compliance baseline revenue, and efficiency revenue separately,
 - b. Any negative efficiency amounts incurred, and
 - c. Any cumulative negative efficiency amount and the fact that the amount must be earned back before Accenture can be paid from future efficiency revenue.

FINDING 3

Department should better ensure contract changes are appropriate

In an attempt to administer the contract under its indefinite-quantity terms, the Department has made several changes to the contract that may affect its overall scope. For example, to keep overall contract costs from increasing when it decided to add approximately \$7 million in services, the Department decreased the monies available for certain other tasks. To help ensure that these changes were in the State's best interest and within legal requirements, such as contract terms and procurement rules, department personnel in charge of the project should have discussed the changes with department and state contracting officials. However, they did not do this or adequately document the changes until auditors brought the need to do so to their attention. The Department should improve its communication and documentation of contract changes to help ensure the changes are appropriate.

Contract changes may affect BRITS' overall scope

The State's central procurement authority, Enterprise Procurement Services (EPS), has the overall authority for the BRITS contract. However, in an effort to administer the contract, the Department has made several changes to the contract by ordering additional services and eliminating others. These changes may affect the contracts' overall scope.

EPS has overall contract authority—Although the Department plays a key role in shaping the BRITS project, the actual BRITS contract is between Accenture and EPS. Therefore, any amendments to the overall contract scope must be made by EPS. However, EPS has delegated the contract's day-to-day administration to the Department, including the role of determining and ordering the specific products and services necessary to meet the system requirements.

BRITS is an indefinite-quantity contract, meaning the project's specific components—such as products and services, and timing of work—could only be

Changes to any services or products that affect the overall contract scope cannot be authorized without EPS amending the contract.

The Department added \$7 million worth of services to the contract as of March 2005.

estimated when the contract was awarded. The contract was designed to meet the numerous system requirements outlined in the State's request for proposals (RFP) or added during the procurement process. Accenture organized these requirements into 21 tasks, plus various "optional" tasks the State may choose to order.¹ Accenture also provided an estimate of the products and services that would be needed to implement the tasks, with the understanding that the specific products and services needed would be finalized when they could be better defined. To that end, BRITS' indefinite-quantity terms give the State the flexibility to determine the specific components of each task as implementation nears. However, changes to any services or products that affect the overall contract scope cannot be authorized without EPS amending the contract.

Department has made changes to the contract—In an effort to administer the contract under its indefinite-quantity terms, the Department has ordered some additional services related to the contract and eliminated others. In all, the Department had added approximately \$7 million of services to the contract as of March 2005. Specifically, the Department added one new task with an estimated price of approximately \$6.4 million for Accenture to provide the off-site hosting, configuration, and maintenance of the BRITS server and network hardware (i.e., data center), which are the components needed to process BRITS' data.² Although a data center and related services are necessary for BRITS to operate, using Accenture to perform the offsite hosting and services was an optional task under the BRITS contract and was not included in the \$122.65 million contract price.³ The Department also ordered additional services within some of the existing tasks. For example, it added technical support and training to the Compliance Data Warehouse task, thereby increasing the task's estimated price by \$250,000.⁴

Initially, in an effort to maintain a total contract price of \$122.65 million despite these additions, the Department decreased the amount of monies available for other tasks. Specifically, the Department planned to pay for most of the \$7 million worth of additions by reducing the amount of monies available for one broadly defined

¹ Optional tasks are not part of the \$122.65 million contract price. The tasks include products or services offered to enhance the core system or assist with operating and maintaining the system, and may be ordered based on a joint agreement between the State and Accenture.

² The Department executed a 4-year data center agreement with Accenture in December 2003. As of May 2005, the Department had researched the costs and feasibility of terminating the agreement early and transferring the data center to the Department of Administration. According to a department official, it would not be in the State's best interest to terminate the agreement at this time because of early-termination penalties and because the Departments of Revenue and Administration do not yet have the capability to support the data center. However, the official indicated that the Department intends to continue to evaluate its data center options over the remaining life of the current agreement.

³ Accenture originally proposed that it be responsible for the offsite data center hosting and related services. However, at the time of the contract's award, the State had not determined whether it would use Accenture for those services. Therefore, the data center task was included as an optional task within the BRITS contract.

⁴ The Compliance Data Warehouse will be a repository for data from various sources, internal and external to the Department, to be used in the Department's audit and collection efforts.

task, known as “Additional Backfill Support.” Although not specifically defined in the contract, the scope of the Additional Backfill Support task appears to include hiring temporary employees to help maintain the Department’s productivity during BRITS’ implementation (such as processing backlogged tax returns), and ordering additional technical support from Accenture during implementation if needed (such as fine-tuning databases). Other tasks were also reduced by smaller amounts, such as Skip Tracing, which identifies the most accurate address of taxpayers with liabilities and Management Support, which is essentially Accenture’s project management responsibilities.

One of the Department’s project managers also signed a memorandum from Accenture on December 10, 2004, indicating she agreed that 5 of the original 534 system requirements were not covered under the contract’s \$122.65 million target price. These requirements were (1) Optical/Intelligent Character Recognition to help improve data input; (2) ability for taxpayers to input filing closures and address changes via phone; (3) Spanish-language option for the Integrated Voice Response system for customer inquiries; (4) Web-based chat and video-conferencing for customer education; and (5) automatic phone dialer system to assist with collections. The Department’s procurement office was not made aware of this agreement until auditors brought it to the office’s attention. When the office sought clarification from Accenture, it was informed that the purpose of the agreement was to clarify that the first four requirements were optional in the contract (i.e., not part of the \$122.65 million price), and the Department chose not to implement the fifth requirement.

Changes may affect the contract’s overall scope—Although the contract’s indefinite-quantity terms allow some flexibility in determining the specific products and services used in the contract, certain changes may impact the contract’s overall scope, and therefore BRITS’ price and/or functionality. The contract price is based on the estimated scope of each task. In other words, if the actual scope of each task remains consistent with Accenture’s original, overall estimate, then the contract price should not exceed \$122.65 million, plus interest. However, if changes are made that increase a task’s overall scope or if new tasks are added, then the contract price may increase as well.

As indicated above, the Department was initially attempting to maintain the contract price by decreasing the amount of monies available for some tasks when services or tasks were added. While this method may keep the contract price within \$122.65 million, reducing tasks may also result in the State’s having to: (a) forego the related products or services, possibly resulting in a lesser or incomplete system, or (b) amend the contract and/or procure any remaining products or services needed, ultimately increasing the contract’s price. For example, according to auditor analysis of department information, as of March 2005, the Department had used

approximately \$6 million of the \$14 million available for the Additional Backfill Support task to pay for most of the contract changes discussed above, and had used the remaining amount for actual backfill support. As a result, should the State require backfill support in the future, it will have to amend the contract and/or procure the amount needed.¹ The changes made so far will not likely affect the system's overall quality or performance. However, if the Department subsequently reduced the amount of monies available for core tasks, such as developing the main database to handle individual income tax functions, then the system's quality or performance could be impacted.

Better disclosure and documentation of contract changes needed

As the Department performs its contract administration role, it should better ensure that contract changes are appropriate by clearly communicating and documenting contract changes. Specifically, to ensure changes are within legal requirements and in the State's best interest, the Department should discuss proposed changes with its procurement office and EPS. In addition, to help ensure the contract reflects the true scope of the project, the Department should improve its documentation of changes to include a description of how each change affects the scope of the tasks involved.

Department should discuss proposed changes with procurement experts—Since the contract changes could affect BRITS' overall scope, the Department should consult procurement experts before making changes. As discussed above, one of the Department's project managers signed an agreement with Accenture that some of the original system requirements in the contract are not within the contract's original, overall scope. However, the Department's procurement office was not made aware of the agreement until auditors brought it to their attention. In addition, although a department official indicated that the Department had informed EPS of the contract changes discussed above, the Department did not maintain documentation related to the discussions, and EPS was unable to verify the official's assertion.

It is important to consult procurement experts regarding contract changes to ensure changes are in the State's best interest and within legal requirements, such as contract terms and procurement rules. Specifically, EPS indicated that it should be involved with changes, such as those already made, that could potentially affect the

¹ As indicated on page 29, the Department recently requested that EPS increase the contract price by \$6.4 million to include the data center. If EPS increases the price, the Department could again have monies available for additional backfill support. Specifically, the Department would no longer have to pay for the data center by reducing the amount of monies available for the Additional Backfill Support task from which the majority of the data center was originally going to be paid.

contract's overall scope to consider whether the changes are necessary, ensure that any changes are within legal requirements, and determine whether the additional items the Department wants should be competitively bid. Therefore, the Department should more consistently consult its procurement office and EPS about proposed changes and document the related discussions. If the Department believes that proposed changes clearly will not affect the overall contract scope and therefore do not warrant EPS' involvement, the Department should at least document the reasoning behind its determination.

To its credit, the Department has already begun taking steps to improve in this area since the audit. For example, on May 17, 2005, the Department sent a memorandum to EPS outlining most of the contract changes that had already been made and requesting that EPS increase the overall contract price by approximately \$6.4 million to include the data center costs. If made, this change would increase the overall contract price to approximately \$129 million. Additionally, a representative from the Department's procurement office began attending meetings of the internal BRITS Oversight Committee in March 2005. Executive-level staff from the Department and Accenture attend these on-going meetings that consist of updates and discussions of BRITS' project-management issues.

In May 2005, the Department requested that EPS increase the overall contract price by approximately \$6.4 million to include data center costs.

Department should improve documentation of changes made—The Department should also improve its documentation of changes that are actually made to the BRITS contract. For the \$7 million worth of changes already made, the Department had not adequately documented the changes. Specifically, documentation for each change either did not exist or did not fully explain how the change affected the tasks involved. For example, on December 11, 2003, the Department increased the scope of the Compliance Data Warehouse task by reducing the price of the Skip Tracing task by \$250,000.¹ However, the initial documentation did not indicate how the price reduction changed the level of Skip Tracing services to be provided.

To ensure changes affecting the project's scope are identified and incorporated into the contract, the Department should improve its documentation of contract changes, as it did in its May 17, 2005, memorandum discussed above. Best practices indicate that changes to such areas of the contract as scope, price, and implementation schedules, even if those areas are only estimates, should be thoroughly documented.² Such documentation should explain the change being made, why it is being made, and whether the change will impact the scope of the tasks involved or the overall project.

¹ Under the Skip Tracing task, Accenture uses an Internet-based tool to determine the most accurate mailing address for taxpayers with outstanding liabilities, but for whom previously mailed bills have been returned.

² (1) IT Governance Institute. 2004. "Control Objectives for Information and Related Technology (COBIT) Online, v3.1." www.itgi.org (Nov. 19, 2004) and (2) Project Management Institute, Inc. *A Guide to the Project Management Body of Knowledge*, 3rd ed. Pennsylvania: Project Management Institute, Inc., 2004.

Recommendations

1. To ensure that contract changes are in the State's best interest and within the legal requirements, such as contract terms and procurement rules, the Department should:
 - a. Consult its procurement office and EPS about proposed changes and document the related discussions, or
 - b. If the Department believes proposed changes clearly will not affect the overall contract scope and therefore do not warrant EPS' involvement, document the reasoning behind its determination.
2. To ensure that changes affecting the project's scope are identified and incorporated into the contract, the Department should prepare documentation for contract changes that clearly explains the change being made, why it is being made, and whether the change will impact the scope of the tasks involved or the overall project.

AGENCY RESPONSE

STATE OF ARIZONA

Department of Revenue
Office of the Director
(602) 716-6090



Janet Napolitano
Governor

Gale Garriott
Director

October 07, 2005

Debbie Davenport, Auditor General
Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Mrs. Davenport:

The Department of Revenue (Department) has reviewed the September 21, 2005 Business Reengineering/Integrated Tax System (BRITS) performance audit report. The Department commends and thanks your staff for their understanding and professionalism throughout the performance audit process.

The following comments are provided as the Department's response to the findings and recommendations.

Finding 1 – Department needs to better manage BRITS project

Recommendation 1 – To take advantage of expert project management advice, the Department should consider hiring an outside advisor to oversee the remaining implementation of BRITS and fulfill the outside advisor's requirements that are described in the BRITS contract. To do so, the Department would have to examine possible funding methods, such as allocating monies from its current budget, or seeking a separate appropriation from the Legislature.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Department will seek a supplemental appropriation from the Legislature for the costs associated with selecting and employing an outside advisor. In addition to the expertise an outside advisor may provide, the Department would note that the current Chief Information Officer and BRITS Project Manager, both of whom are relatively recent hires, have over 30 years of combined experience in IT Project Management and were both recently certified as Project Management Professionals (PMP) by the Project Management Institute (PMI).

Recommendation 2 – To better ensure success and to ensure that the terms of the BRITS contract are fulfilled, the Department should develop and follow its own overall plan to manage the project.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Department began drafting an internal plan for management of the BRITS Program in June 2005. The plan will comply with project management best practices. To allow for

adequate review and comment from the Department Leadership team, the target date for sign off on the completed plan is October 31, 2005.

Recommendation 3 – To prevent some of the issues that occurred in the initial phases of BRITS, the Department should continue its efforts to include key stakeholders in better defining the Department's requirements for the BRITS system and ensuring that both the Department and Accenture agree on what those requirements are until the BRITS project is complete.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Department has already implemented a number of changes to ensure the system requirements are adequately defined. The changes implemented include:

- a. Improved Requirement Definition - Between March 2005 and June 2005, the Department Leadership team initiated a series of meetings with Accenture to review all 534 requirements from the original BRITS proposal. The meetings resulted in a common understanding of the requested functionality and an identified program phase for delivery of each requirement.
- b. Requirement Sign Off - System requirements are signed off by all key Department stakeholders. In addition, more detailed process flows and user specifications are being developed. For example, sample screen designs and report layouts are provided to the users allowing them to visually inspect the proposed changes to the system.
- c. Requirement Traceability - A detailed Requirement Traceability Matrix (RTM) for tracking requirements through all phases of the project and into production is in place.
- d. Requirement Impact Analysis - Cross-functional teams comprised of subject matter experts from across the Department review project deliverables to ensure the requested changes are appropriate.
- e. Key Deliverable Approval - The Steering Committee - comprised of the Department Director, Deputy Director, and the Assistant Directors with operational responsibility - sign off on all key project deliverables.
- f. Acceptance Criteria - The Project Manager will be working with key stakeholders to define specific acceptance criteria for each remaining phase of the program.
- g. Operational Readiness Assessment - A Readiness Plan has been developed and approved. The plan calls for active Steering Committee involvement in the communication and readiness assessment activities.

Recommendation 4 – To remain aware of and plan for project risks, the Department should continue its efforts to identify, document and mitigate risks until the BRITS project is complete.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Department understands the importance of risk management and intends to continue with its current practice of reviewing program risks monthly. Further, an additional step has been added to the process to further ensure risks/impacts are identified and mitigation

plans developed as early as possible in the project. During the functional design activities for the Corporate Tax phase of the BRITS program, the project team identified and captured potential operational impacts. The impacts identified (resources, training, budget, etc.) were summarized and presented to the Steering Committee members on August 9, 2005 and planning for those impacts has begun.

Recommendation 5 – To make certain that all necessary functions of the system are working prior to conversion, the Department should ensure BRITS testing is adequate, including:

- a. Getting system users involved with testing as early as possible, and
- b. Making sure that an adequate amount of time is taken to perform testing, and correct and retest any problems.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

In the first phase of the BRITS program, issues with system stability delayed release of the system to users for testing and resulted in compressed testing schedules. The BRITS Corporate and Individual Income tax data conversions will include active user involvement in the testing cycles to identify issues as early as possible.

In addition, a full scale system test will be conducted by the project team prior to user testing. A system test is intended to identify critical system issues that may impact stability prior to delivery of the software to end users. The Corporate Income tax timeline was specifically developed to reduce overlap between system and user testing and to maximize testing and repair time.

In order to apply lessons learned from the TPT and Withholding tax conversions, the Corporate and Individual Income tax conversions will incorporate the following additional controls:

- a. Acceptance Criteria - Pre-defined acceptance criteria will be established to control and measure the data conversion process. These criteria will include elements to evaluate the success rate of data conversion from Legacy systems, and will set a minimum quality standard that must be met before production data conversion will be authorized.
- b. Monitoring of Conversion Issues - Conversion issues, including known issues with Legacy data will be identified and managed so that alternatives can be evaluated, and actions taken to eliminate or minimize the risk associated with the conversion issues.
- c. Go/No Go Decision Point - Recognizing that adequate test time is critical to the success of a conversion, if the minimum acceptance criteria have not been satisfactorily achieved, the conversion will be delayed and testing will continue until such time as the criteria have been met. The BRITS Steering Committee will approve or disapprove the final conversion based on the acceptance criteria and the list of outstanding conversion issues.

Recommendation 6 – To ensure that all Department staff can perform their jobs using BRITS, the Department should continue to ensure that future training will address previous training problems and will allow the Department to effectively use, operate, and maintain BRITS.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Several changes aimed at improving the overall quality of current and future phases of the BRITS program will also increase the quality of the training activities. The relevant changes to date include:

- a. Improved Requirement Definition – The better the requirement documentation is on a project, the easier it is to develop training that clearly outlines the impact of the changes.
- b. Approval to Proceed – The BRITS Steering Committee will review relevant project artifacts – deliverables, issues, etc. to determine whether or not to proceed to the next step of the current phase. If the system is not stable, approval will not be given to proceed to User Training until necessary repairs are complete.
- c. Manual Procedure Development – In addition to completing detailed system documentation, the project team is also producing detailed manual procedures for each Division. These procedures form a strong basis for development of detailed training curriculum. In addition, all manual procedures will be loaded into the system on-line Help function for future reference after the training has been completed.
- d. Go/No Go Decision Point - The BRITS Steering Committee will approve or disapprove the conversion for each of the remaining tax type conversions (i.e., Corporate and Individual Income tax) based upon predefined acceptance criteria. User training will be a key element of the acceptance criteria. If the minimum acceptance criteria have not been satisfactorily achieved, the conversion will be delayed.

Recommendation 7 – To ensure the BRITS system is secure and sensitive data is protected, the Department should:

- a. Complete and implement policies and procedures that govern system access controls; audit trail creation and analysis; data encryption management, virus protection, and intrusion detection and prevention; and,
- b. Perform security assessments periodically to determine if its policies and procedures are followed and adequately ensure system security.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Department understands the importance of properly controlling access to computer resources and is in the process of assembling a Security Manual which will contain all of the key processes and procedures related to data security. The manual will also include the method and timing of security assessments to ensure policies and procedures are adhered to and systems are adequately protected from unauthorized access.

Historically, the Department has conducted an annual review of data access privileges across all systems and users. The new applications implemented for the BRITS project will be included in the annual review scheduled for October 2005. In addition, the Department engages Cisco Systems, Inc. to conduct an annual Security Posture Assessment on the network. This assessment tests for network vulnerabilities. In the most recent assessment,

conducted in June 2005, there were no high risk vulnerabilities identified and all vulnerabilities identified in the previous year's report had been resolved.

In October 2004, the Department recognized the need for a centralized data security role in the newly implemented BRITS environment and established a Security Officer position. Over the period of October 2004 to January 2005, the Department's IT Division assumed responsibility for BRITS data security from various members of the BRITS project team.

Since January 2005, the IT Division has conducted two Security Summit meetings to review and evaluate existing security processes and procedures. As a result of these meetings, we have updated, improved, and streamlined our data security processes and tools. In addition, the Department continues to review and refine user access privileges across all Divisions.

Recommendation 8 – To help with the planning and execution of future phases of the project, the Department should develop and follow a formal post-implementation review plan, as stated in the BRITS contract, that outlines how and when during the project it will perform reviews.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Department will work with Accenture to develop a formal post-implementation review plan. The plan will document the review activities already in place from the first phase of the program as well as those additional activities planned for future phases. The reviews planned for the Corporate and Individual Income tax phases are as follows:

- a. Approval to Proceed - A "Gate" review meeting will be conducted with Steering Committee members at predefined intervals for the remaining phases of the BRITS program. The purpose of a "gate" meeting is to gain formal approval for the project team to proceed to the next step of the current phase; i.e. functional design to technical design. Following are examples of discussion topics for the gate meetings:
 - a) The completion status of deliverables for the current phase.
 - b) The status of open issues. The intent is to discuss critical issues that may jeopardize future project phases.
 - c) Outstanding project risks and associated mitigation plans.
- b. Go/No Go Decision Point - The BRITS Steering Committee will approve or disapprove the conversion for each of the remaining tax type conversions (i.e. Corporate and Individual Income tax) based upon the acceptance criteria and the list of outstanding conversion issues. If the minimum acceptance criteria have not been satisfactorily achieved, the conversion will be delayed and testing will continue until such time as they have been achieved.
- c. Lessons Learned - A lessons-learned meeting will be conducted after each of the major BRITS program phases.

Recommendation 9 – To increase the chances of success, until the project is complete, the Department should continue to hold lessons-learned sessions at appropriate points during the project and should document and use the results of these meetings to improve BRITS' implementation.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

A lessons learned meeting was conducted after the initial phase of the BRITS program. The results of that session were presented to the BRITS Steering Committee for review and consideration. As described in the Department response to Recommendation 3 above, several improvements have already been implemented in the current phase of the program. As outlined in the Department response to Recommendation 8 above, a lessons-learned meeting will be conducted after each of the major BRITS program phases.

Finding 2 – BRITS not generating additional revenue as expected

Recommendation 1 – The Department should continue to work toward improving BRITS-generated revenue for the remainder of the contract term. Specifically, the Department should continue to work with Accenture to:

- a. Resolve BRITS' inability to generate accurate collections notices thereby increasing efficiency revenue, and
- b. Improve existing BRITS discovery programs and identify and implement new programs.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

With regard to the generation of collections notices, or more appropriately, billings, the Department acknowledges that there was a significant delay in this process after the initial conversion to the BRITS system, and that a backlog did develop. This delay affected processes further down the line, such as staging bills to Collections. The delay was primarily caused first by programming delays and then by the need to manually review the data to validate the accuracy of the billings.

Accenture and DOR met in March 2005 and agreed to dedicate a team of developers to focus on billing and collections related issues in order to improve the collection of efficiency revenue. In addition, the Department dedicated a team of users to review a sample of bills from weekly billing runs to identify system errors.

As of August 15, 2005, the development team had made over 90 improvements in the areas of Taxpayer Accounting and Collections. In addition, more rigorous issue prioritization, release management, and testing processes implemented in March 2005 have helped further stabilize the production system. As incremental programming improvements move to the production environment, fewer bills need manual review and backlogs are reduced. The Department acknowledges that improvements to this process have and will continue to improve the flow of Enforcement Revenue, and, as a result, Efficiency Revenue.

Currently in BRITS, the Department is issuing billings for Transaction Privilege Tax on a weekly basis. Billings for Withholding are being issued but a backlog remains with a goal of being current by December 31, 2005. In conjunction with the billing, receivables are automatically staging to Collections for further collections activities in accordance with Department policies. Although BRITS does not currently issue delinquency notices in mass, delinquencies are being referred to Collections for further collections activities on a monthly basis and the specific collector can manually issue a delinquency notice when

working the case if he or she chooses. Work continues on automated issuance of delinquency notices, and it is expected to be completed before the end of calendar year 2005.

With regard to the improvement of existing BRITS Discovery programs and the implementation of new programs, the Department acknowledges that the BRITS system and the tools that have been provided with it offer new opportunities for discovering non-filers of all tax types. With this in mind the Department established a BRITS Discovery Team, as a part of the audit staff, with the sole focus of initiating and managing Discovery programs.

The Department acknowledges that there are potentially many methods that can be used to find non-filers and bring them into compliance. As the Corporate and Individual Income taxes come into the BRITS system, and more integrated data becomes available to the Department, the opportunities for Discovery will improve. Discovery Benefits are up considerably over the last several months averaging more than \$500K per month since October 2004. The July 2005 revenues are reported at over \$1.4 million. The Discovery team continues to develop new Discovery programs and the Department has committed to adding three additional resources to support the on-going management of the programs.

Recommendation 2 – The Department should continue to report the following information about BRITS enforcement revenue in its monthly Project Status Report to GITA:

- a. The amounts of discovery revenue, license compliance baseline revenue, and efficiency revenue separately,
- b. Any negative efficiency amounts incurred, and
- c. Any cumulative negative efficiency amount and the fact that the amount must be earned back before Accenture can be paid from future efficiency revenue.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The monthly GITA reporting has been in place since September 2003. At the time the enforcement revenue report was developed, there were no established requirements or guidelines provided for the content of the report. In addition, the Department has never received a request to change the level of detail provided. The detail added to the June 2005 report has always been available and, once requested, was included immediately. The Department will continue to provide this information to GITA, the external Oversight Committee, and other oversight bodies.

Finding 3 – Department should better ensure contract changes are appropriate

Recommendation 1 – To ensure that contract changes are in the State's best interest and within the legal requirements, such as contract terms and procurement rules, the Department should:

- a. Consult its procurement office and EPS about proposed changes and document the related discussions, or

- b. If the Department believes proposed changes clearly will not affect the overall contract scope and therefore do not warrant EPS' involvement, document the reasoning behind its determination.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Department agrees that contract changes should be appropriately documented and approved. In May 2005, the BRITS Project Manager and procurement officer identified and documented the contract changes that had occurred over the course of the contract. The changes identified were outlined in a memo that was forwarded to EPS on May 17, 2005 and requested the appropriate contract amendment(s) be issued.

The Department and Accenture have agreed on a formal change control process that allows for the tracking of items that may result in contract amendments. The Change Request Log will be reviewed by the BRITS Steering Committee in current and future phases of the program.

The procurement officer and EPS will be immediately involved in any proposed contract amendments moving forward. As of March 2005, the Department procurement officer was added as an active member of the BRITS Steering Committee.

Recommendation 2 – To ensure that changes affecting the project's scope are identified and incorporated into the contract, the Department should prepare documentation for contract changes that clearly explains the change being made, why it is being made, and whether the change will impact the scope of the tasks involved or the overall project.

The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

The Department agrees to prepare complete documentation for any future contract changes.

Thank you for the opportunity to respond to the report.

Sincerely,

Gale Garriott
Director

GG:vp

Performance Audit Division reports issued within the last 24 months

04-L1	Letter Report—Arizona Medical Board	05-L1	Letter Report—Department of Health Services—Ultrasound Reviews
04-L2	Letter Report—Gila County Transportation Excise Tax	05-01	Department of Economic Security—Division of Employment and Rehabilitation Services—Unemployment Insurance Program
04-L3	Letter Report—Department of Economic Security—Population Estimates	05-02	Department of Administration—Financial Services Division
04-01	Arizona Tourism and Sports Authority	05-03	Government Information Technology Agency (GITA) & Information Technology Authorization Committee (ITAC)
04-02	Department of Economic Security—Welfare Programs	05-04	Department of Economic Security—Information Security
04-03	Behavioral Health Services' HB2003 Funding for Adults with Serious Mental Illness	05-05	Department of Economic Security—Service Integration Initiative
04-04	Department of Emergency and Military Affairs and State Emergency Council	05-06	Department of Revenue—Audit Division
04-05	Department of Environmental Quality—Water Quality Division	05-07	Department of Economic Security—Division of Developmental Disabilities
04-06	Department of Environmental Quality—Waste Programs Division	05-08	Department of Economic Security—Sunset Factors
04-07	Department of Environmental Quality—Air Quality Division	05-09	Arizona State Retirement System
04-08	Department of Environmental Quality—Sunset Factors	05-10	Foster Care Review Board
04-09	Arizona Department of Transportation, Motor Vehicle Division— State Revenue Collection Functions	05-11	Department of Administration—Information Services Division and Telecommunications Program Office
04-10	Arizona Department of Transportation, Motor Vehicle Division—Information Security and E-government Services	05-12	Department of Administration—Human Resources Division
04-11	Arizona Department of Transportation, Motor Vehicle Division—Sunset Factors	05-13	Department of Administration—Sunset Factors
04-12	Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers	05-14	Department of Revenue—Collections Division

Future Performance Audit Division reports

Department of Revenue—Sunset Factors

Governor's Regulatory Review Council