

REPORT HIGHLIGHTS PERFORMANCE AUDIT

Subject

BRITS involves reengineering the Department's core processes and implementing a new information system, which the Department is paying for with increased tax revenue the system is supposed to generate.

Our Conclusions

BRITS' implementation problems have hindered the Department's ability to perform some basic functions, including billing taxpayers. These problems may have been minimized if the Department had hired an outside advisor and used more of its most knowledgeable staff. While the Department has improved its project management, BRITS is not yet generating the increased revenue originally projected. Finally, the Department needs to better ensure contract changes are appropriate and documented.



2005

Department Needs To Better Manage BRITS Project

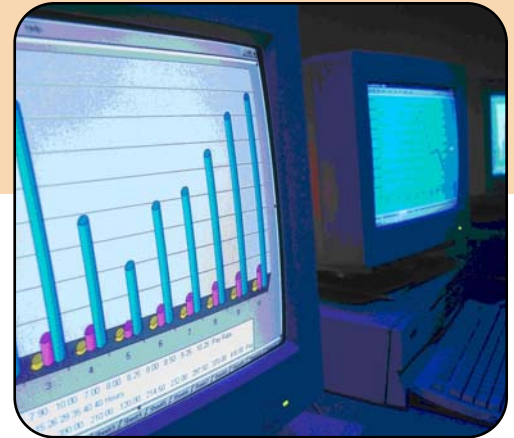
The Department of Revenue (Department) contracted with Accenture, a management consulting firm, to reengineer its core business processes and develop its new Business Reengineering/Integrated Tax System (BRITS). BRITS is expected to make all taxpayer information available through one integrated system. Currently, information is located in several separate systems.

When fully implemented, BRITS will permit business taxpayers to file sales tax and withholding tax returns, and pay taxes online. In addition, it will provide tools that will aid the Department in collecting unpaid taxes. For example, it will tell collectors which taxpayer liabilities they will most likely be able to collect.

Quick Facts about BRITS

- \$122.65 million—Contract price.
- \$9-13 million—Estimated interest costs.
- 135—Estimated number of department and Accenture staff working on project.
- 3—Number of implementation phases.

Early problems—The first phase involved designing and implementing the main database where all tax processing will



occur and converting sales and withholding tax data from the old system to BRITS. Problems in implementing BRITS' first phase impacted the Department's ability to function. For example:

- Almost 9 percent (7,500) of the 87,000 accounts-receivable items totaling more than \$28 million did not correctly convert from the old system.
- Bills for more than 17,000 taxpayer liabilities worth almost \$45 million were incorrect and had to be manually corrected before being sent.

Lack of expertise—Implementation problems arose partly because the Department did not have enough experienced people involved with the project. It did not initially involve enough of its IT staff with the project and has had four different project managers. Although the BRITS contract indicated that the Department would hire an outside "oversight advisor" to provide expertise in monitoring the project, it never did so.

Improved oversight—The Department has taken steps to better control the project. Current project managers have

extensive IT project management experience. In addition, the Department has formed an oversight committee consisting of department and Accenture management. The Department's IT staff has also become more involved in handling some BRITS support functions previously handled by the contractor. However, because of the continuing need for expertise in software skills and system design, hiring an outside advisor may still be beneficial.

Need to follow best practices—The Department has recently begun to improve several key aspects of its project management, including better defining what the system is expected to do and improving the training for system users. However, the Department can do more to

follow best practices in several areas. For example:

- **Planning**—The Department should create a plan for how it will oversee Accenture's efforts. This plan should specify the resources the Department will use to manage the project and the methods for ensuring Accenture is meeting requirements.
- **Testing**—The Department needs to ensure that it adequately tests BRITS' next phases before implementation. Department management and staff indicated that testing for the first phase was inadequate. For example, system users did not have enough time to fully test the system prior to implementation.
- **Security policies and assessments**—Because of the sensitive nature of BRITS' data, the Department should develop security policies and procedures, and conduct periodic security assessments to ensure compliance.

Recommendations

The Department should:

- Consider hiring an outside advisor.
- Develop an overall plan to manage the project.
- Adopt other best practices to improve project management.

BRITS Not Generating Additional Revenue As Expected

The BRITS system is being paid from additional enforcement revenue generated by the system. Accenture receives 85 percent of the additional enforcement revenue and the State receives the remaining 15 percent until the contract has been paid for or the 10-year contract term expires, whichever comes first.

Enforcement revenue is money the Department receives as the result of its enforcement functions, such as audit, accounts receivable, and collections. Three types of enforcement revenue are measured under the contract—discovery, license compliance baseline, and

efficiency. So far, BRITS has not generated efficiency revenue as expected.

\$15.7 million in discovery revenue and license compliance baseline revenue—

Discovery revenue is generated from taxpayers who are nonfilers, or who underpaid taxes, but would not have been discovered without one of BRITS' new features. License compliance baseline revenue is money the Department collects because BRITS has improved the efficiency of its license compliance function, which involves staff finding unlicensed businesses. As of March 2005, BRITS had generated

approximately \$15.7 million in discovery and license compliance baseline revenue, of which Accenture received \$13.3 million (85 percent) as payment for BRITS, pursuant to the contract.

Efficiency revenue lower than expected—

The Department receives efficiency revenue from improved efficiency of its audit, accounts receivable, and collections functions. For example, the BRITS scoring system can identify for collectors those taxpayers who are most likely to pay their tax liabilities. This permits the Department to save time and resources by focusing its efforts on those taxpayers.

Efficiency revenue is calculated by comparing the Department's monthly collections to a baseline dollar amount. This baseline amount is intended to represent what the Department would have collected without BRITS.

Based on department information, BRITS generated nearly \$23.2 million in efficiency revenue earlier in the project. However, the Department collected less than the baseline amount every month between June and December 2004, creating "negative efficiency amounts." For example, if the baseline was \$1 million and BRITS collected \$500,000, then the negative efficiency amount would be \$500,000. The cumulative negative efficiency amount was as low as \$27.3 million in December 2004, and was \$9.3 million as of March 2005. This amount must be earned back before Accenture is paid from future efficiency revenue.

The primary cause of the negative efficiencies appears to be BRITS' inability to generate accurate bills for taxpayer

liabilities. As a result, the Department has had to manually review and correct bills before mailing them to taxpayers. This resulted in a backlog of over 17,000 notices totaling almost \$45 million.

Under the contract terms, the negative efficiencies also mean that the State has to pay more for BRITS. Although Accenture is not paid from efficiency revenue unless the system increases that revenue type, the State accrues interest on unpaid invoices from Accenture. According to department information, as of March 2005, the State had incurred approximately \$4.5 million in interest and had nearly \$43 million in outstanding invoices.

Efforts to increase revenue—The Department is working to increase efficiency revenue. Department staff is working with Accenture to develop solutions to the inaccurate bills. In addition, the Department and Accenture have formed a special team to develop ways to increase enforcement revenue.

Provide more complete reporting—Until recently, the Department was not providing a complete picture of BRITS' enforcement revenue in a monthly project status report it submits to the Governmental Information Technology Agency and other stakeholders. Although no requirements were established for the information the report should include, the Department was combining the enforcement revenue types and was not reporting negative efficiency amounts. To its credit, the Department began reporting enforcement revenue types separately and including information about negative efficiencies in its June 2005 report in response to auditor recommendations.

Recommendations

The Department should:

- Continue efforts to increase enforcement revenue.
- Continue to report enforcement revenue types separately and include information about negative efficiency amounts.

Department Should Better Ensure Contract Changes Are Appropriate

Although the Department administers the BRITS contract, the contract is actually between Accenture and the State Procurement Office, recently renamed Enterprise Procurement Services (EPS). EPS has delegated the contract's day-to-day administration to the Department. Although the Department and Accenture had a general idea of the project's scope, the project's specific components could only be estimated at the time the contract was awarded. Therefore, as the project progresses, the Department and Accenture must determine the specific products and services BRITS requires. However, EPS must approve changes that affect the contract's overall scope.

Contract changed—The Department has changed the contract to include some additional services. In order to keep the contract within its \$122.65 million price tag, the Department has had to eliminate some services to make room under the contract for the newly added services. For example, the Department added nearly \$7 million for services, including data center services needed for processing BRITS' data. To pay for most of these services, the Department reduced the amount of monies available to hire temporary employees to help with production during BRITS' implementation, and to pay for additional technical support from Accenture staff.

Changes could affect scope—The contract changes that were made could affect the contract's overall scope. Specifically, the changes may increase the contract's price or require the Department to forgo the services it has reduced.

Discuss and document changes—The Department should consult with its own procurement experts and EPS prior to making contract changes that could affect the contract's overall scope. In addition, it should better document the changes made. For example, the Department reduced the price of skip tracing, a method of finding taxpayers, in order to increase work on another task. However, the only documentation available did not indicate how the price reduction changed the level of skip tracing services to be provided.

The Department recently sent a memorandum to EPS outlining contract changes 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. In addition, the Department would no longer have to pay for the data center by reducing the amount of monies available for other contract components.

TO OBTAIN MORE INFORMATION

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Recommendations

The Department should:

- Consult with its own procurement experts and EPS about contract changes.
- Better document and explain existing and future contract changes.