STATE OF ARIZONA

Department of Revenue
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Janet Napolitano
Governor

October 07, 2005

Gale Garriott
Director

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