

STATE OF ARIZONA
Department of Revenue



Douglas A. Ducey
Governor

Carlton Woodruff
Interim Director

June 20, 2019

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

Dear Ms. Perry:

The Arizona Department of Revenue (Department) appreciates the opportunity to respond to the Auditor General's report, *Arizona Department of Revenue—Sunset Factors*. The Department would like to thank your staff for the professional and collaborative approach of the Office of the Auditor General during the audit process. As discussed in the enclosed response, the Department will implement all recommendations contained in the report.

Thank you,

Carlton Woodruff
Interim Director

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

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

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

Response explanation: The Department has developed and implemented a new conflict-of-interest disclosure process that went into effect on February 20, 2019, and as of June 5, 2019, has obtained disclosure forms from 95 percent of all full-time employees, temporary staff, contractors, and commission and committee members. The Department plans to be 100 percent compliant with its disclosure forms by the end of fiscal year 2019.

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

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

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

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

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

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

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

Department Response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: Rather than seek a change to its administrative rules, the Department has decided to pursue a statutory change to remove the requirement to adopt a rule prescribing record-keeping requirements for taxpayers claiming a credit for expenses incurred in constructing a qualified environmental technology facility. If the Department is unsuccessful in changing the statute, it will proceed with rulemaking as recommended.

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

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

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

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

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

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

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

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