

The June 2019 Arizona Department of Revenue performance audit and sunset review found that the Department did not comply with all conflict-of-interest requirements, ensure it collected and reported all State income taxes, and plan for eventual replacement of its main IT system. We made 7 recommendations to the Department, and its status in implementing the recommendations is as follows:

### Status of 7 recommendations

Implemented	3
In process	2
No longer applicable	1
<b>Not implemented</b>	<b>1</b>

Although the Department has implemented 3 of 7 recommendations, and 1 recommendation is no longer applicable, it has not implemented 1 recommendation and is in the process of implementing 2 recommendations. According to the Department, the 2 recommendations it is in the process of implementing will be fully addressed with its development and implementation of a new integrated tax system that will include controls to address the identified deficiencies associated with these recommendations. In June 2023, the Department awarded a contract for the development and implementation of a new integrated tax system that is being planned and implemented in various stages through fiscal year 2028 at an estimated cost of \$105 million. Because the Department reported that these 2 outstanding recommendations will be addressed with its implementation of a new integrated tax system, if directed by the Joint Legislative Audit Committee (JLAC), we will assess its efforts to implement the new tax system and these 2 recommendations as part of the Department’s next sunset review, which is required to be completed by October 2027. If directed by JLAC, we will also continue to assess the Department’s compliance with both State conflict-of-interest requirements and its conflict-of-interest policies and procedures—the recommendation that has not been implemented—during this sunset review. Therefore, unless otherwise directed by JLAC, this report concludes our follow-up work on the Department’s efforts to implement the recommendations from the June 2019 performance audit and sunset review report.

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

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.

**Not implemented**—In September 2023, the Department revised its conflict-of-interest policies and procedures, and also developed an associated dashboard and spreadsheet to track its efforts in obtaining conflict-of-interest disclosure forms from its full-time employees, temporary staff, contractors, and commission and committee members. Our review of the dashboard showed that the Department had obtained 751 disclosure forms from full-time employees, temporary staff, and contractors as of July 2024. The Department also provided documentation showing it obtained the completed conflict-of-interest disclosure forms for the 4 commission and committee members we reviewed. However, our comparison of information in the dashboard to the Department’s executive organizational chart found that the dashboard did not indicate that 3 executive-level employees had completed the Department’s conflict-of-interest disclosure forms. After we brought this to the Department’s attention, it obtained

signed disclosure forms for 2 of 3 executive-level employees.<sup>1</sup> Further, in August 2024, contrary to its policies, the Department reported that it had not been requiring new staff to complete disclosure forms because it reorganized its human resources responsibilities and did not ensure that new staff completed disclosure forms during the reorganization period. Although the Department has revised its conflict-of-interest policies, procedures, and practices, its continued inability to ensure all full-time employees, temporary staff, contractors, and commission and committee members complete disclosure forms as required jeopardizes its ability to take action when needed to ensure these individuals do not participate in Department financial matters, business, or decisions for which they have disclosed conflicts. The Department reported that it plans to conduct its annual process for collecting disclosure forms from all full-time employees, temporary staff, and contractors in September 2024 and will continue to reach out to individuals to complete disclosure forms. If directed by JLAC, we will continue to assess the Department's compliance with both State conflict-of-interest requirements and its conflict-of-interest policies and procedures as part of its next sunset review, which is required to be completed by October 2027.

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

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.

**Implementation in process**—The Department continues to address its IT system's limitations by using the tool it developed to reconcile employer withholding and individual income taxes paid. However, as reported in the Fiscal Year 2022 State of Arizona Single Audit Report issued in December 2023, we found that the Department did not perform all necessary reconciliations to ensure it collected all income taxes due to the State.<sup>2</sup> As part of the State's corrective action plan to address findings in the Arizona Single Audit Report, the Department reported that it will continue to engage in outreach and education efforts to assist employers in understanding and complying with requirements for submitting withholding information to help ensure that all relevant accounts are included in the Department's reconciliation process. The Department implemented an electronic filing method in December 2020 that allows software vendors and payroll service providers to transmit withholdings and the associated tax forms directly to the Department to help collect and report all State income taxes. Since implementing electronic filing, the Department reported continued increases in Arizona employers submitting withholding data electronically. For example, according to the Department, for the 2022 tax year, approximately 39 percent of Arizona employers submitted withholding data electronically, and in tax year 2023, that percentage increased to approximately 62 percent. Finally, as previously discussed, a new integrated tax system is being planned and implemented in various stages through fiscal year 2028 that will include withholding reconciliation for all relevant income tax accounts.

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

**Implementation in process**—The Department continues to receive yearly funding for the ongoing maintenance of BRITS. This includes a fiscal year 2025 appropriation of nearly \$7.9 million for annual maintenance, increased data storage capabilities, and information technology (IT) personnel. The Department is also developing a new integrated tax system that will replace BRITS. Specifically, in June 2023, the Department awarded a contract for the development and implementation of a new integrated tax system that is being planned and implemented in various stages through fiscal year 2028 at an estimated cost of \$105 million. If directed by JLAC, we will assess the Department's progress in developing and implementing its new integrated tax system as part of its next sunset review, which is required to be completed by October 2027.

---

<sup>1</sup> According to the Department, the executive-level employee who did not complete a disclosure form had been on an extended leave and has yet to complete the form.

<sup>2</sup> Arizona Auditor General. (2023). State of Arizona June 30, 2022, Single Audit Report. Phoenix, AZ. Retrieved 08/13/2024 from [https://www.azauditor.gov/sites/default/files/2024-01/StateOfArizonaJune30\\_2022SingleAudit.pdf](https://www.azauditor.gov/sites/default/files/2024-01/StateOfArizonaJune30_2022SingleAudit.pdf)

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

4. The Department should adopt the rule required by A.R.S. §43-1080.  
**No longer applicable**—Laws 2020, Ch. 243, repealed A.R.S. §43-1080, and thus, eliminated the rule requirement.

## **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.**

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.

**Implemented at 6 months**

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

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

**Implemented at 6 months**

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

**Implemented at 6 months**