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Governor



Craig C. Brown
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

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November 13, 2015

Mr. David Briant, Director
Arizona Department of Revenue
1600 West Monroe Street
Phoenix, AZ 85007

Dear David:

In response to the Project Investment Justification (PIJ) for the “**Private Fraud Prevention Investigation Services**” project, my staff has reviewed your proposal to implement an identity verification and fraud prevention solution.

The PIJ implies that funding is available from the General Fund in the amount of \$3,150.0 thousand, with additional funding to be requested from the General Fund to accommodate ongoing operational expenses, for the five-year life cycle cost of the project.

This is notification of Arizona Strategic Enterprise Technology Office's recommendation to the Information Technology Authorization Committee (ITAC) for **Approval with Conditions** of the technology project as follows:

1. Upon award, the Arizona Department of Revenue (ADOR) must notify ADOA-ASET and the Information Technology Authorization Committee (ITAC) via a formal communication regarding the identity of the selected vendor and final proposed costs.
2. The Arizona Department of Revenue (ADOR) will work with ADOA-ASET Security, Privacy, and Risk (SPR) to ensure the appropriate security controls are in place, in regards to the approved solution, in order to protect State data.
3. Should there be a change in the proposed costs of 10% or more, the Arizona Department of Revenue must amend the PIJ to reflect the changes and present it to ITAC, if required, for review and approval prior to further expenditure of funds.

The ITAC is scheduled to meet on November 18th, 2014 to review this project. Should the ITAC approve the project, you may then proceed to secure additional approvals as required from the Joint Legislative Budget Committee, the Office of Strategic Planning and Budgeting, and the State Procurement Office.

Mr. David Briant
November 13, 2015
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Best Wishes,



MIKE LETTMAN
ON BEHALF OF
MORGAN REED

Morgan Reed
State CIO
Arizona Strategic Enterprise Technology (ASET) Office

jc

cc: Johnathon Edwards, ADOR
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ASET# RV16001

<i>Agency Name & Address</i>	<i>Contact Information</i>
Arizona Department of Revenue (ADOR) 1600 West Monroe Street Phoenix, AZ 85007	Roxanna Rodriguez 602-716-6080 rrodriguez@azdor.gov
<i>Project and Investment Justification Name</i>	<i>Date Submitted</i>
Private Fraud Prevention Investigation Services	Pre-PIJ – July 17, 2013 <i>Revised PIJ – November 13, 2015</i>

Project Overview

Problem Description

Financial institutions and tax agencies, including the Arizona Department of Revenue (ADOR), have become targets for very high stakes financial crimes. In recent years, ADOR and the Internal Revenue (IRS) have been affected by a particular scheme in which false individual income tax returns are filed under false names and social security numbers, with fraudulent W-2 forms. Perpetrators include individuals, fraud rings and dishonest tax preparers. The increasing reliance on e-filing of tax returns by taxpayers has increased the efficiency of tax operations and taxpayer convenience, and has also opened opportunities for fraud on a greater and more sophisticated scale than ever before.

ADOR has been given a legislative mandate to issue a Request for Proposal (RFP) to receive and evaluate bids for services that offer automated private fraud investigation software that quickly screens tax refund requests for potential fraud.

Solution

With the objective of stopping fraudulent income tax refunds in the early stages of processing, ADOR is proposing to issue an RFP to receive and evaluate bids for private fraud investigation services. The envisioned screening services must be capable of screening tax refund requests and identifying potential fraud. ADOR anticipates that a solution to meet their needs should be minimally capable of the following:

- A hosted software data analytics product capable of analysis for patterns that can detect suspected attempts to defraud the ADOR.
- The service must have the ability to identify fraud at the point of origination through predetermined advanced fraud detection criteria.
- Fraud flagging criteria as specified by the ADOR Criminal Investigations Unit must be met.
- The available tools must utilize techniques that allow information filtering, scoring, and sorting.
- A secure data interface that meets with ADOA-ASET Security, Privacy and Risk (SPR) approval.

ADOR has completed the solicitation, and is now ready to select a final vendor based on responses to the RFP. ADOR followed standard procurement procedures and compared vendor submissions against the RFP requirements, which contained the essential components for implementing a comprehensive private fraud prevention Investigation solution to meet current ADOR standards. After thorough review of vendor responses, ADOR selected a

commercial off-the-shelf (COTS) solution from a vendor which met the requirements, including predictive analytics, modeling, and ad-hoc data mining of internal and external data sources.

Major Deliverables and Outcomes

- Creation of RFP
- Distribution of RFP
- Review and evaluation of vendor responses to RFP
- Submission of Full PIJ to ADOA-ASET Prior to Contract Award
- Contract Award

ADOR will procure the new COTS solution which will be installed within the State Data Center. The vendor will provide all hardware, software, security, installation services, user training, and 24x7 help desk support.

Benefits

Through the RFP issuance and subsequent contract award and deployment of a solution, ADOR expects at least the following benefits to be realized:

- Compliance with legislative mandate to receive and evaluate bids for automated private fraud investigation software/services.
- Significantly increased ability to determine whether or not a return is fraudulent, without human intervention.
- Reduced immediate need for additional computer hardware for fraud analysis staff.
- Elimination of manual processes, resulting in enhanced efficiency, a decrease in time-consuming research, and the potential to reduce the necessity of assigning and/or hiring additional auditors for the Fraud Detection Team during tax season

The fraud prevention and investigation solution will provide tools to agency investigators to identify and prevent fraudulent income tax refunds in the early stages of processing. This early detection will help to reduce resource waste and allow for higher levels of efficiency and accuracy in investigative efforts. The recommended automation of business rules and fraud detection processes and procedures will assist in these efficiency efforts.

Project Management

The project will be coordinated and managed by ADOR staff.

The vendor shall provide all hardware and software and oversee installation services, user training, and 24x7 help desk support.

Enterprise Architecture

Compliant

Summary of Proposed Costs

<i>All Figures in Thousands (\$000)</i>						
<i>Cost Description</i>	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>	<i>Total</i>
Development Costs	1,060.0 to 5,300.0	0.0	0.0	0.0	0.0	1,060.0 to 5,300.0
Operational Costs	250.0	228.8 to 2,058.8	228.8 to 2,058.8	228.8 to 2,058.8	228.8 to 2,058.8	1,165.0 to 8,485.0
Total Project Costs	1,310.0 to 5,550.0	228.8 to 2,058.8	228.8 to 2,058.8	228.8 to 2,058.8	228.8 to 2,058.8	2,225.0 to 13,785.0

Recommendation: Approval with Conditions

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