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NEWS RELEASE

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FOR RELEASE July 1, 2015

Auditor of State Mary Mosiman today released a report on selected computer systems operated by the State. The review of the systems was conducted for the period July 1, 1999 through June 30, 2014 to determine whether the systems were appropriately planned, monitored, and were cost effective. The review was also performed to determine whether information technology (IT) contracts were in compliance with the *Code of Iowa* and Administrative Rules and whether costs incurred were necessary and reasonable for the administration of the systems. The Departments and the related computer systems selected for review include:

- Department of Corrections (DOC) – Iowa Corrections Offender Network (ICON)
- Department of Administrative Services (DAS) –Integrated Information for Iowa (I/3)
- Department of Revenue (DOR) – Tax Gap Compliance Program (Tax Gap)
- Iowa Public Employees' Retirement System (IPERS) – Quest for Excellence (I-Que)

The following table lists the total expenditures for these systems and the period covered by this review.

System	Fiscal years	Production	Maintenance/ On-going Operations	Total Expenditures
DOC – ICON	2000 - 2014	$ NA	NA	31,017,488
DAS - I/3	2001 - 2014	31,523,269	32,115,494	63,638,763
DOR - Tax Gap	2000 - 2014	30,025,839	39,600,826	69,626,665
IPERS - I-Que	2006 - 2014	29,547,254	4,677,496	34,224,750

NA – Only total expenditures were available.

Mosiman reported the following regarding the systems selected for review:

- Planning - DOC and DAS did not maintain sufficient planning documents to determine if the systems were properly planned during the early phases of development. Proper planning helps reduce, and possibly prevent, cost overruns, excessive change orders, and provide milestones and timelines necessary to help keep a project on track.
- Budgeting - DOC, DAS, and DOR did not maintain comprehensive budgets for the systems.
- DOC did not issue a Request for Proposals for the system. Instead, DOC selected a Targeted Small Business to provide the Information Technology services. In

addition, DOC did not have a comprehensive service contract with the contractor, ATG, from 1998 until September 22, 2010. DOC signed a contract with ATG on October 4, 2010 which covers the period September 23, 2010 through September 23, 2016.

- Former DAS staff responsible for administration of I/3 agreed to 30 change orders and extensions of the CGI Technologies and Solutions Inc. contract during fiscal years 2003 through 2008. As a result, the initial contract amount increased by $4,209,625, or 45%, from $9,447,678 on September 30, 2002 to $13,657,303 by June 1, 2008, the effective date of Change Order 30. In addition, 25 of the 30 change orders were signed after the work had begun and 6 of the change orders did not include the additional maintenance costs related to the change orders.
- DOR did not ensure the transfer of knowledge agreed to under the terms of the contract occurred. The transfer of knowledge is necessary for Department staff to perform many of the queries and administrative functions of the system. Instead, DOR continued to rely on the contractor and pay higher fees than needed for data base administration services. Had the knowledge transfer taken place after the system had been placed in operation, the Department would have been able to save money by using existing staff or by hiring additional staff instead of paying the higher hourly rates charged by the contractors.
- Chapter 68B.7 of the *Code of Iowa* includes a 2 year ban on receiving compensation while representing a contractor and working on a project in which the person was directly involved while employed by the State. Within a year of leaving employment with DOR, the former DOR Director and Tax Gap Compliance Project Manager were hired by Teradata, the company which the DOR contracted with for the Tax Gap system. The former Director approved the initial Tax Gap Contract on behalf of DOR in November 1999, then was hired by Teradata as a consultant in 2003 and continued to work for Teradata through 2008. According to DOR staff, the former Director worked on the Tax Gap project with DOR as a Teradata consultant. According to DOR staff, the former Project Manager was hired by Teradata as a consultant for a project in Australia. She did not work on any projects involving the State of Iowa.

Mosiman also reported the State is reliant on the contractors initially selected for the projects because the Departments did not negotiate some form of ownership rights for the systems. Although the Departments have licenses for perpetual use of the systems, changes to the system require the contractors to provide the services necessary to make the changes. If the Department does not have some form of ownership rights for the system, it is unable to use State employees or other lower cost alternatives to make desired changes to the system. The contractor may then charge higher rates for changes to the system because the Department is reliant on the contractor and it is cost prohibitive to change in most cases.

A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at http://auditor.iowa.gov/specials/1060-8990-B0P1.pdf.

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A REVIEW OF COMPUTER SYSTEMS OPERATED BY THE DEPARTMENT OF CORRECTIONS, THE DEPARTMENT OF ADMINISTRATIVE SERVICES, THE DEPARTMENT OF REVENUE AND THE IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

FOR THE PERIOD
JULY 1, 1999 THROUGH JUNE 30, 2014

1060-8990-B0P1

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Auditor's Transmittal Letter

To the Governor, Members of the General Assembly, and the Directors of the Department of Corrections, the Department of Administrative Services, the Department of Revenue, and the Iowa Public Employees' Retirement System:

In conjunction with our audit of the financial statements of the State of Iowa for the year ended June 30, 2014 and in accordance with Chapter 11 of the *Code of Iowa* (*Code*), we have conducted a review of selected computer systems operated by the Department of Corrections, the Department of Administrative Services, the Department of Revenue, and the Iowa Public Employees' Retirement System. Our review included an assessment of controls and compliance with policies and procedures for planning, budgeting, contracting, monitoring, and reporting. We also evaluated compliance with the *Code* and Administrative Rules governing contracting for information technology (IT) services.

We applied certain tests and procedures to the selected systems' planning, budgeting, contracting, monitoring, and reporting procedures and financial information for the period July 1, 1999 through June 30, 2014. Based on a review of relevant information, the *Code*, and Administrative Rules governing contracting for IT services, we performed the following procedures:

(1) Interviewed Department personnel, reviewed applicable laws and regulations over contracting, and reviewed system information to obtain an understanding of the systems and related planning, budgeting, contracting, monitoring, and reporting completed by the Departments for the selected systems.

(2) Examined procedures and supporting documentation for system planning to determine if planning was appropriate, including, but not limited to, anticipated funding sources, cost, use of in-house staff, services contracting, use of contract employees, equipment and software purchases, measurable deliverables, milestones, performance measures, timeline, and desired results.

(3) Reviewed contracts entered into by the Departments to determine reasonableness and if the contracts complied with relevant requirements established by the *Code* and Administrative Rules.

(4) Determined if required policies and procedures for determination of employee/employer relationship were followed and documented for contracts with independent contractors.

(5) Determined if financial records, reports, and monitoring completed by the Departments complied with project plans, significant laws, Administrative Rules, and procedures.

(6) Determined if revenue and expenditures reported by the Departments to the Legislative Services Agency (LSA), the Chairpersons and ranking members of the Senate and House Ways and Means Committees, or other agencies is sufficient, supported, and complied with the *Code* or other requirements.

Based on these procedures, we identified findings regarding the planning, budgeting, contracting, monitoring, and reporting procedures used in the development of the systems. As a result, we have developed certain recommendations and other relevant information we believe should be considered by the Departments, the Governor, and the General Assembly. The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of the Departments, other matters might have come to our attention that would have been reported to you.

We extend our appreciation to the personnel of the Department of Corrections, the Department of Administrative Services, the Department of Revenue, and the Iowa Public Employees' Retirement System for the courtesy, cooperation, and assistance provided to us during this review.

Mary Mosiman
MARY MOSIMAN, CPA
Auditor of State

Warren Jenkins
WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 28, 2014

Introduction

The State of Iowa contracts for the development and administration of various computer systems for many different functions, including accounting, database administration, and federal program administration. According to the fiscal year 2013 Iowa Technology Governance Board "Information Technology Annual Report", the State expended approximately $81.8 million on information technology. The $81.8 million includes approximately $33.4 million for IT services contracts and $48.4 million for hardware, software, networking, and maintenance. The amount does not include costs associated with Department resources, including payroll, used to develop and maintain IT systems. These costs are excluded because they are not consistently tracked or easily identifiable by State Departments.

Based on each Department's total IT expenditures and available information on the computer systems each Department developed and administered, we selected four Departments to review. The Departments and the related computer systems selected for review include:

- Department of Corrections (DOC) – Iowa Corrections Offender Network (ICON)
- Department of Administrative Services (DAS) – Integrated Information for Iowa (I/3)
- Department of Revenue (DOR) – Tax Gap Compliance Program (Tax Gap)
- Iowa Public Employees' Retirement System (IPERS) – Quest for Excellence (I-Que)

The review was also performed to determine if information technology (IT) contracts were in compliance with the *Code of Iowa* (*Code*) and Administrative Rules governing contracting for information technology (IT) services and whether costs incurred were necessary and reasonable for the administration of the systems. We also evaluated controls and compliance with policies and procedures for planning, budgeting, contracting, monitoring, and reporting.

Department of Corrections (DOC)

The Department of Corrections (DOC) was established by the *Code* and is overseen by the Iowa Board of Corrections. DOC is responsible for the control, treatment, and rehabilitation of offenders committed under law to the State's correctional institutions. To help carry out its mission, the DOC uses a computer system to track offenders and provide the necessary information to monitor the correctional institutions. DOC receives funding from State appropriations, Federal grants, and reimbursements from other state agencies.

During fiscal year 1998, DOC began to discuss the need for a new computer system to replace the outdated Adult Corrections Data System (ACDS). ACDS consisted of 2 non-integrated mainframe databases. In addition to ACDS, DOC used paper records to manage and track offenders and monitor the correctional institutions. ACDS did not provide the information necessary for decision-makers, such as the Governor, the Legislature, judges, and DOC staff, to make crucial public safety decisions. According to DOC staff we spoke with, the replacement of ACDS was initiated for 5 primary reasons:

- Improve staff efficiency,
- Enhance communication within DOC, with other agencies, and with the general public,
- Allow for the real time exchange of information not possible under the old system,
- Enhance DOC's ability to measure correctional outcomes, and
- Allow DOC to be more effective in working with the offender population.

DOC selected Advanced Technologies Group, Inc. (ATG) to design and implement the Iowa Corrections Offender Network (ICON) system. Funding for the development and maintenance of the ICON system is appropriated annually to the DOC by the Legislature and deposited in the ICON fund established by section 904.118 of the *Code*.

According to the Director of the DOC, ATG was selected because the Director liked ATG's approach to technology development and ATG was classified as a Targeted Small Business (TSB). Because the Department of General Services (now the Department of Administrative Services, or DAS) had entered into an agreement for IT services with ATG, DOC did not complete a competitive bid process for the services. The agreement between DAS and ATG established ATG's qualifications for providing IT services, such as consulting and development to other State departments. However, each Department was required to negotiate the specific terms of an agreement for services.

The ICON system is a fully integrated statewide computer database application which consists of various modules which feed information into the main Case Management module. The Case Management module allows caseloads and workloads to be created for employees. Because the system is fully integrated, DOC employees are able to more easily communicate and share information.

According to the State's accounting system, DOC has spent approximately $31 million to develop and maintain the ICON system from fiscal year 2000 through 2014. The $31 million does not include DOC in-house staff costs or equipment costs incurred by the correctional institutions and judicial districts. As of June 30, 2014, $29.4 million (95%) of the $31 million spent on ICON was paid to ATG to develop, implement, enhance, and maintain ICON. The remaining $1.6 million was for computer hardware and miscellaneous equipment and supplies.

Department of Administrative Services (DAS)

The Iowa Department of Administrative Services (DAS) is responsible for managing and coordinating the major resources of State government, including human resources, financial accounting and budgeting, information resources, and buildings and grounds. Because the Iowa Financial Accounting System (IFAS) and Human Resources Information System (HRIS) were not integrated and were more than 30 years old, DAS decided to develop and implement a new system to replace the outdated systems. Initial planning for the new system began in June 2000. In September 2002, DAS entered into a contract with AMS (later purchased by CGI) for the development of a new system. The new system is named Integrated Information for Iowa (I/3).

The main reasons DAS decided to replace the outdated IFAS and HRIS systems with a new system were as follows:

- Make it easier to get information about State government (transparency),
- Provide accurate and complete information,
- Increase State government's accountability,
- Integrate the financial and human resource components,
- Manage available resources, and
- Streamline and improve business processes.

I/3 was authorized by the Governor, the Legislature, and the Technology Governance Board, now the Technology Advisory Council. I/3 is a comprehensive integrated Enterprise Resource Planning (ERP) system for the State which integrates budgeting, financial accounting, data warehouse, human resources, and payroll.

DAS contracted with CGI Technologies and Solutions Inc. (CGI) for the development and implementation, upgrades, maintenance, and enhancements of the I/3 system. The $19.9 million contract with CGI covers the period from September 30, 2002 through June 30, 2014. Currently, DAS is negotiating a 2-year extension of the CGI system maintenance contract.

Funding for the development, on-going operations, maintenance, upgrades, and enhancements is provided by State appropriations, transfers from the Rebuild Iowa Infrastructure Fund (RIIF), and DAS billings for services provided to State departments. As of June 30, 2014, DAS has received approximately $68.3 million and has spent approximately $63.6 million for planning, development, implementation, upgrades, enhancements, maintenance, and operations of I/3.

Department of Revenue (DOR)

The Department of Revenue (DOR) is responsible for the administration of state and local tax revenue. DOR collects over $6 billion annually in various tax revenues. DOR initiated the Tax Gap Compliance Program (Tax Gap) to help identify and collect taxes which remain unpaid and to replace an outdated mainframe and manual system used to identify non-filers and non-payers. Tax Gap is defined as the program, or set of programs, authorized in section 421.17(23) of the *Code*, which states, in part, "To develop, modify, or contract with contractors to create or administer systems or programs which identify non-filers of returns or nonpayers of taxes administered by the department."

DOR includes Corporate Tax, Sales and Use Tax, and Personal Income Tax in Tax Gap. The DOR Compliance Division established a Tax Gap team which is responsible for administration of Tax Gap and to promote voluntary tax compliance, enhance and improve customer services, improve audit efficiency, and increase tax revenues. Tax Gap is a multiple year project which involves the use of contractors for computer consulting services and equipment.

In November 1999, DOR entered into a $13 million performance-based contract with NCR Government Systems Corporation (NCR) for the provision of professional services, software to design, develop, and implement a data warehouse and an automated audit processing system. The system was developed to help identify non-filers or non-payers of taxes to be included in the Department's audit procedures. The initial NCR contract was for 3½ years and included an option to exercise 2 one-year extensions. In January 2007, NCR announced its intention to spin off its Teradata division into the Teradata Corporation (Teradata). Effective August 1, 2007, DOR approved Teradata's assumption of the previous Tax Gap contracts entered into with NCR. DOR continues to use the Tax Gap system and is under contract with Teradata until March 14, 2019 if all options included in the contracts are exercised.

DOR also approved contracts with The Sartell Group, a subcontract with Teradata, for work on the Tax Gap System. The Sartell Group provides services related to maintenance and enhancements to the system. The contracts covered the period December 2006 through June 30, 2013. Effective September 11, 2013, DOR entered into a new contract with Teradata for application enhancement services as needed. If all options under the contract are exercised, the contract will run through September 10, 2019. Any application enhancement services provided by Teradata to DOR must be agreed to in one or more separate statements of work under this contract.

DOR's Tax Gap operations is self-funded using revenue collected under the Tax Gap program, as allowed by section 421.17(23) of the *Code*. According to the Tax Gap Compliance Program revenue and expenditure reports submitted to the Legislative Services Agency (LSA) and the Legislative Ways and Means Committees (the Committees), the total Tax Gap revenue collected from fiscal year 2000 through fiscal year 2014 is approximately $288.9 million. The $288.9 million includes $38.6 million of revenue estimated by the DOR Tax Gap staff for fiscal year 2014. However, Tax Gap revenue recorded by DOR in the State's financial accounting system totaled $131.9 million for the same period, $157 million less than the amount reported

to LSA and the Committees. According to DOR staff we spoke with, this is because only a portion of the Tax Gap revenue is recorded in the Tax Gap Fund. The remaining revenue is coded to the General Fund as tax revenue and is not specifically identified as Tax Gap revenue in the General Fund.

The $288.9 million reported to LSA and the Committees is based on a report created by DOR Compliance Division personnel from tax information contained in the Tax Gap system. All transactions recorded in the Tax Gap system include a sub code which allows DOR Compliance Division personnel to track and record tax revenue by type, including Tax Gap revenue. Using the coding, Tax Gap staff can determine the total amount collected and, by tracing the collection to the transaction where the collection was recorded in the system, they can reconcile the amount reported to LSA and the Committees to the State's accounting system.

Using the State's accounting system, we verified the Tax Gap revenue reported to LSA and the Committees for fiscal years 2000 through 2007. However, we were unable to verify the Tax Gap revenue reported to LSA and the Committees for fiscal years 2008 through 2014. According to DOR officials, the differences in revenue recorded in the State's financial accounting system and amounts reported to LSA and the Committees is due to a change in how Tax Gap revenue is accounted for by DOR in the State's accounting system. In prior years, Tax Gap revenue was recorded in the Tax Gap fund. Beginning in 2008, Tax Gap revenue was recorded in the State's General Fund. The change in reporting was requested by the Revenue Estimating Conference. The Tax Gap reports provided to LSA and the Committees are prepared based on the how the revenue is coded in the Tax Gap system and not how it is reported in the State's accounting system.

According to DOR representatives, Tax Gap revenue was recorded in the General Fund with all other tax revenue beginning in fiscal year 2008. During the first several months of each fiscal year, DOR transfers revenue from the General Fund to the Tax Gap Fund to cover budgeted expenditures. When a sufficient amount has been transferred to cover the budgeted expenditures, the additional revenue received is recorded in the General Fund. At the end of the year, a final entry is made to transfer revenue from the General Fund to cover additional expenses or transfer excess revenue recorded in the Tax Gap Fund to the General Fund.

Because all Tax Gap revenue is comingled with other tax revenues in the General Fund, it is not possible to specifically identify and reconcile Tax Gap revenue recorded in the State's accounting system to the amounts reported to LSA and the Committees without additional information from DOR. Because DOR staff identify each transaction involving Tax Gap revenue with a specific code in the Tax Gap system, they can reconcile the amounts reported in the Tax Gap system to the amounts reported to LSA, the Committees, and to the total amount recorded in the State's accounting system. However, no independent review is performed by other DOR representatives to verify the accuracy of reconciliation and the Tax Gap revenue reported.

For the period July 1, 1999 through June 30, 2014, DOR spent approximately $69.6 million for the development, implementation, maintenance, enhancements, and on-going operations of the Tax Gap system. On-going operations include salaries of DOR personnel, payments to IT service providers, communications, office supplies, and printing. The $69.6 million includes DOR payroll and other resources used for Tax Gap beginning in fiscal year 2002. Prior to fiscal year 2002, DOR did not include internal resources in the cost of Tax Gap. Of the $69.6 million, approximately $20.3 million (29%) was paid to Teradata, the primary contractor used by DOR for Tax Gap.

Iowa Public Employees' Retirement System (IPERS)

The Iowa Public Employees' Retirement System (IPERS) was established by section 97B.1 of the *Code* as an independent agency within the executive branch of State government to administer the State's retirement system. Based on an evaluation of the systems in place, IPERS staff and

its 2 governing Boards determined during fiscal year 2004 a new system would need to be developed to handle the increase in retirees and to provide IPERS the opportunity to take advantage of technology to help mitigate increasing costs.

The IPERS Quest for Excellence (I-Que) system is an effort by IPERS to replace a highly complex group of database management systems running on a mainframe. According to representatives from IPERS, the I-Que system is strategically important because it will help mitigate the costs and staffing increases necessary to meet the increase in the volume of work required due to the pending retirement of the "baby boomers". Representatives from IPERS also stated the change is necessary to take advantage of the internet arena to serve employers through the creation of an online system which allows employers to perform a wide variety of tasks, including enrolling and managing employee information, managing demographic data, and online submittal of wage and member quarterly reports. Some of the benefits of the new system include increased services, reduced risk, and reduced inefficiencies.

During fiscal years 2006 through 2014, IPERS spent approximately $34.2 million for planning, development, implementation, enhancements, maintenance, and on-going operations of the I-Que system. Of the $34.2 million, $28.3 million (83%) has been paid to the 3 primary IT service contractors, Vitech Systems Group Inc., ICON Integration & Design Inc., and L.R. Wechsler Ltd. Of the $28.3 million, $24.1 million was paid to Vitech Systems Group Inc., the main contractor for the project.

The I-Que system was fully implemented during fiscal year 2014. IPERS continues to work with Vitech Systems Group, Inc. to develop and implement business processes and enhancements. The current contract runs from July 1, 2012 through June 30, 2015 and covers maintenance, support, upgrades and enhancements to the I-Que system. The maximum value of the contract is $3,690,000.

Objectives, Scope, and Methodology

Our review was conducted in conjunction with our audit of the financial statements of the State of Iowa and in accordance with Chapter 11 of the *Code*. The purpose of the review was to determine if the computer systems selected for review were in compliance with applicable laws, rules and guidelines related to bidding, contracting, and on-going administration of the systems.

To accomplish the objectives, we:

- Identified Departments with significant expenditures recorded in the State's financial system and selected the primary computer system developed and administered by the Department.
- Interviewed staff responsible for administering the systems to obtain an understanding of the administration, policies and procedures, controls, and monitoring of the projects.
- Reviewed and evaluated procedures and controls related to project planning, budgeting, contracting, monitoring, and reporting to determine if they were operating effectively.
- Reviewed applicable contracting laws, rules, and guidelines.
- Examined contracting activity and contractual relationships to determine compliance with the *Code* and Administrative Rules and procedures.
- Reviewed selected contractors to determine the extent and appropriateness of contract amendments, additional statements of work, and change orders.

- Determined if required policies and procedures for determination of employee/employer relationships were followed and documented for contracts with independent contractors.
- Reviewed financial activity for the period July 1, 1999 through June 30, 2014 for reasonableness, including project costs, such as consulting, programming, hardware, software, system maintenance costs, and on-going costs, such as enhancements, upgrades, maintenance, hardware updates and software updates.

As a result of the procedures performed, we identified concerns and compliance issues related to planning, budgeting, contracting, monitoring, and reporting. In addition, a summary of revenue and expenditures related to each system is presented.

Detailed Findings

Planning – The implementation of a computer system requires comprehensive planning. The plan should include items such as user requirements, resources needed and available, project budgets, cost estimates, system software development plans, hardware requirements, milestones, performance measures, staffing and staff responsibilities, including, but not limited to, system development, monitoring, and reporting. Supporting documentation should be maintained for significant decisions regarding any aspect of a project.

In addition, the requirements for development and implementation of systems contained in the "Federal Information System Controls Audit Manual" (FISCAM) of the United States Government Accountability Office provide the best practices for administering a computer system. The FISCAM includes information on properly documenting the system and what documentation should be maintained for the system. For example, the FISCAM provides details on the documentation of:

- A system development life cycle (SDLC) methodology, including:
  - a structured approach consistent with generally accepted concepts and practices, including active user involvement throughout the process,
  - is sufficiently documented to provide guidance to staff with varying levels of skill and experience,
  - provides a means of controlling changes in requirements that occur over the system life, and
  - includes documentation requirements.
- Configuration management, including:
  - overall policies and procedures,
  - the approval and testing of scheduled and emergency changes, and monitoring procedures to ensure compliance,
  - current configuration information,
  - authorizing, testing, approving and tracking all configuration changes, and
  - monitoring/auditing the configuration.
- Technical configuration standards for workstations, servers, related network components, mobile devices, mainframes, operating systems, and security software.
- Description of configuration management software.

The State has also set record retention requirements which require support related to computer programming and computer systems to be maintained. The requirements are set forth in section ADM 07-09.G of the Record Commission's State of Iowa Records Management Manual. The

requirements state in part, data processing system records of all State departments must be retained for a period of 20 years, beginning at the end of each relevant fiscal year. These records include correspondence, requests for programming, and background material records. The effective date of the record retention requirement is January 13, 2003. According to a representative of the State Records Center, the previous record retention requirement was effective in July 1982 and it included the same 20 year requirement.

DOC - DOC officials were unable to provide a comprehensive plan for the ICON system. According to DOC staff we spoke with, DOC did not develop a comprehensive plan for ICON system software development. Rather, DOC relied on user groups to help define what the system should be capable of and scope documents prepared by ATG for each module of the ICON system.

However, DOC provided several e-mails and notes regarding the planning and development of the ICON system. The e-mails and notes include a priority list of modules, including automation of administration, offender services, and security population management. The priority list is periodically updated by DOC.

DOC representatives acknowledged a comprehensive plan was not developed, but provided a written overview of DOC's plan since inception of ICON and the planning process used by DOC for each significant ICON module or project. According to DOC representatives, the overall plan since the late 1990's was to replace the Adult Corrections Data System and automate daily activities of staff in relation to administration, offender services, and security population management. DOC representatives also stated, most importantly, the plan was to provide a seamless automated system between correctional facilities and community-based correction districts, other State departments, such as the Department of Public Safety, and relevant federal and local agencies.

DOC officials stated a comprehensive plan was not developed because of the level of funding provided for ICON. DOC established and uses a scope planning process for each significant project and change modification based on funding available. The scope planning process identifies the overall focus of the project/module and any changes to be made to the ICON system. The process begins with user input and includes evaluation of the design, business and technical specifications, verification, testing, quality assurance, and implementation of deliverables for the ICON system. The information is provided to ATG, which completes a scope document and the initial cost estimate for the project. The scope document is then provided to DOC and DOC follows its change order process to complete the negotiations. According to DOC representatives, the change order control process was implemented in fiscal year 2010 in response to the previously issued "Review of Statewide Procurement" report.

DOC considers all available funding in determining the scope of work to be done each year. DOC officials stated it is nearly impossible to budget for ICON in advance until a scope document is completed. The scope planning process includes on-going monitoring by DOC of ICON funds to help determine if a project moves forward or is placed on hold. If funding is available, ATG proceeds with the project as directed by DOC.

Subsequent to the initial user groups, DOC created a 6 member ICON team. The team is responsible for deciding what ICON modules are implemented, system changes which should be made and the timing of implementation and changes.

A project of this size requires significant planning, including the evaluation of available options, user input, resources needed and resources to be used, contracting, system milestones and timelines for implementation. Although DOC uses the scope planning process to develop each module, the scope planning process does not replace a comprehensive development plan which would address long term planning, including resources needed and available, project budgets, cost estimates, system software development plans, hardware requirements, milestones, and

performance measures. The scope planning process is used as needs are identified instead of as a long term planning tool.

Based on section ADM 07-09.G of the Record Commission's State of Iowa Records Management Manual, data processing system records of all State departments, including correspondence, requests for programming, and background material records, must be retained for a period of 20 years. Because planning information was not consistently maintained, DOC is not in compliance with the requirements of this section.

Findings related to DOC planning of the ICON system are summarized in **Finding A**.

DAS - DAS officials provided limited examples of the planning completed during the early years of the I/3 system. The information provided included summaries of project meetings, presentations to the Government Oversight Committee of the Legislature, and system implementation strategies prepared by CGI. DAS was unable to provide information for planning which occurred prior to fiscal year 2005. According to DAS representatives we spoke with, former staff did not pass on all the planning documentation to the current staff. Based on our review of the information provided and discussions with DAS officials, we identified the following concerns regarding I/3 system planning:

- Planning documentation was not consistently maintained and forwarded to current DAS I/3 system staff. Current I/3 system staff we spoke with stated I/3 was not well planned during the early years.
- Several significant issues were encountered while developing the Human Resource Management (HRM) system. Because the HRM system failed to meet the needs of State departments, DAS did not accept the work completed by CGI. As a result, DAS decided to put the HRM system on hold and complete and improve the financial component of I/3 prior to focusing on implementation of another significant component of I/3. Because the HRM system was not completed, DAS and other State agencies continue to use the outdated HRIS and centralized payroll systems. According to DAS I/3 system staff, DAS is currently in the initial stages of identifying user needs for a new HRM system and working toward a proposal for the development and implementation of a new HRM system.
- DAS I/3 system staff we spoke with stated some State departments have developed and implemented their own programs without carefully considering whether the programs interface with the I/3 system.

Current staff provided several examples of comprehensive current detailed planning for I/3 and a list of upgrades and enhancements to I/3 since fiscal year 2005. Although planning documentation prior to fiscal year 2005 was not available, current staff maintains sufficient information to plan I/3 system upgrades and enhancements. Because planning documents were not maintained during the early stages of the project, we were unable to evaluate and determine if planning is comprehensive in nature.

Based on section ADM 07-09.G of the Record Commission's State of Iowa Records Management Manual, data processing system records of all State departments, including correspondence, requests for programming, and background material records, must be retained for a period of 20 years. Because planning information was not consistently maintained, DAS is not in compliance with the requirements of this section.

Findings related to DAS planning for the I/3 system are summarized in **Finding A**.

DOR – DOR officials provided documentation demonstrating sufficient planning of the Tax Gap system. Examples of planning documents provided by DOR include project timelines, Tax Gap compliance project overview, such as identifying the business problem, solution and projected benefits, procurement process planning, requests for proposals planning, Tax Gap team meeting schedules and meeting minutes, contractor selection, contract negotiation summary, project status reports, and system design.

According to representatives of DOR, DOR discussed the Tax Gap project with representatives of the Department of Management (DOM), the Legislative Fiscal Bureau (now the Legislative Services Agency (LSA), the Information Technology Department (now the Office of the Chief Information Officer), DAS purchasing, and the Office of Auditor of State. Based on planning and discussions with the agencies noted, DOR worked with DOM and LSA to pursue legislation which authorized development of the system. As a result, the Legislature passed House File (HF) 266 during the 1997 legislative session. HF 266 includes the following:

> *"To develop, modify, or contract with contractors to create or administer systems or programs which identify non-filers of returns or nonpayers of taxes administered by the department. Fees for services, reimbursements, or other remuneration paid under contract may be funded from the amount of tax, penalty, interest, or fees actually collected and shall be paid only after the amount is collected. An amount is appropriated from the amount of tax, penalty, interest, and fees actually collected, not to exceed the amount collected, which are sufficient to pay for services, reimbursement, or other remuneration pursuant to this subsection. Contractors entering into a contract with the department pursuant to this subsection are subject to the requirements and penalties of the confidentiality laws of this state regarding tax information."*

Based on the information provided, DOR is in compliance with section ADM 07-09.G of the Record Commission's State of Iowa Records Management Manual. DOR has maintained the necessary records to support planning of the Tax Gap system and on-going planning for the development and maintenance of the system.

IPERS – IPERS officials provided documentation demonstrating sufficient planning of the I-Que system. Examples of planning documentation maintained by IPERS include an IT strategic plan with goals, objectives, scope, methodology, detailed descriptions of the previous and proposed systems, timelines, network diagrams, and the I-Que project history by fiscal year.

Based on research and planning, IPERS made presentations to representatives of DOM, DAS-ITE, the Legislative Administration and Regulation Appropriations sub-committee, and the Technology Advisory Council to discuss and seek approval for the I-Que system. IPERS representatives stated the representatives from other departments supported the project.

Before proceeding with work on the new system, IPERS hired a consulting firm to help with overall project management, business process redesign, technical assessment, and procurement assistance. IPERS used a competitive bid process to select all contractors used for the planning and development of the I-Que system.

Based on the information presented, IPERS is in compliance with section ADM 07-09.G of the Record Commission's State of Iowa Records Management Manual.

Budgeting and Funding - As part of an overall project plan, a detailed line item budget should be developed and used from the start of the development of a system through completion and may be adjusted annually depending on available resources. The budget should periodically be compared to actual costs incurred to monitor and identify cost over-runs or items which may need adjustment. The budget should track all sources of funding, including State appropriations, federal funds, and revenue generated by the system. Budgeted funding should

periodically be compared to actual funding to facilitate decision-making by State department management, the Legislature, and the Governor regarding funding needs and requests for future funding.

DOC – We requested a copy of the ICON system budget, including comparisons of actual to budgeted funding and costs and cumulative totals from inception through June 30, 2014. DOC staff did not initially provide a comprehensive budget or a summary of actual costs incurred for the period requested. However, subsequent to discussions with DOC officials, DOC provided a summary which included all funding used by DOC to cover ICON expenditures for the period July 1, 1999 through June 30, 2014.

Annually, DOC staff review and determine what improvements are needed to existing modules and if any new modules are needed. ATG provides a summary of new modules to be approved by DOC. DOC does not prepare a comprehensive long term plan for the development or maintenance of the system. DOC then requests funding for the development and maintenance of the ICON system from the Legislature. Appropriated funds are deposited in the ICON Fund established by section 904.118 of the *Code*. In addition, DOC reviews current resources to determine if funds are available to carry out the plan.

DOC continues to work with ATG to enhance modules and on additional projects, such as the prison property module. In fiscal year 2014, DOC worked with ATG to develop applications which can be used on hand-held devices to enter information into the various ICON modules. The new application allows staff to spend more time in the field and with the offenders and less time in the office entering information. However, as of June 30, 2014, DOC had not developed a budget for the new module. According to DOC representatives, DOC is currently working on developing an ICON budget. **Table 1** summarizes ICON funding by source, according to DOC, as of June 30, 2014.

Table 1

Funding Source for ICON		Amount
State appropriations – direct to DOC		$ 11,297,710
State appropriations to DOC institutions		8,700,913
State Criminal Alien Assistance Program (SCAAP) – federal funds		5,082,972
Receipts from Advanced Technologies Group (ATG)~		3,646,349
Pooled Technology funds		2,402,679
Reimbursements from other State departments:		
Human Rights	$131,132	
Public Safety - DCI	55,182	
Education	1,155	187,469
Interest allocation from State Treasurer for the ICON Fund		162,093
Charter agency grant funds		125,000
Adjustments/miscellaneous		6,039
Total		$ 31,611,224

~ - Receipts from ATG related to the sale of the banking system.

The **Table** shows DOC received a total of approximately $31.6 million of funding for the ICON system. Of the approximately $31.6 million received, $20 million (63.3%) was from state appropriations, $5.1 million (16.1%) was from federal funds, $3.6 million (11.5%) was received from ATG, $2.4 million (7.6%) was allocated from Pooled Technology funds, and the remaining $0.5 million (1.5%) was from various other sources.

As part of an overall project plan, it is important a detailed line item budget be developed and used from the start of a project through completion. The budget should periodically be compared to actual revenue collected and costs incurred to monitor and identify whether revenue is sufficient and cost over-runs or items which may need adjustment. Budgetary oversight would be improved by including comprehensive tracking and monitoring of the actual project expenditures compared to line item budgets over the life of the project. Findings regarding budgeting and funding for DOC are summarized in **Finding B**.

DAS – DAS did not provide a comprehensive budget which compared budgeted to actual expenditures for the purpose of controlling costs over the life of I/3. DAS representatives we spoke with stated DAS planned and budgeted for I/3 yearly based on system needs and available funding. While a cumulative all-inclusive budget to actual expenditure comparison was not provided, DAS representatives stated they are able to summarize the information based on the financial records for each fiscal year. As previously stated, staff involved in the initial planning did not maintain or transfer records to current staff working on I/3.

Information available on the I/3 system and available from the limited historical files provided by DAS indicates DAS received approximately $68.3 million of funding from fiscal year 2003 through 2014 for I/3. We provided the information to a DAS representative who verified the information was correct. The main sources of funding include:

- $16.6 million from State appropriations from the Tobacco Settlement Trust Fund,
- $12.6 million transferred from the Rebuild Iowa Infrastructure Fund (RIIF), as approved by the Legislature,
- $10.2 million transferred from the State's General Fund, as approved by the Legislature, and
- $28.9 million received from billings to State departments for the use of I/3.

As of June 30, 2014, DAS has expended approximately $63.6 million for planning, development, implementation, upgrades, enhancements, maintenance, and on-going operations of I/3.

As part of an overall project plan, it is important a detailed line item budget be developed and used from the start of a project through completion. The budget should periodically be compared to actual revenue collected and costs incurred to monitor and identify whether revenue is sufficient and cost over-runs or items which may need adjustment. Budgetary oversight would be improved by including comprehensive tracking and monitoring of the actual project expenditures compared to line item budgets over the life of the project. Findings regarding budgeting and funding for DAS are summarized in **Finding B**.

DOR - DOR completes a line item budget and summary of actual revenue and expenditures each fiscal year for the Tax Gap system. However, DOR did not provide a comprehensive budget since inception of Tax Gap, including a comparison of cumulative total budgeted line item amounts to cumulative total actual revenue and expenditures, when requested. The line item budget maintained for individual fiscal years by DOR demonstrates budgetary control over Tax Gap funds for the individual fiscal years. However, DOR did not demonstrate comprehensive budgetary control over the life of Tax Gap because a comparison of cumulative total budgeted line item amounts to cumulative total actual revenue and expenditures was not provided when requested.

Sufficient internal control over budgets and expenditures require a cumulative line item budget be established and periodically monitored to help maintain cost control over projects of this size. In addition, it is important total project costs are estimated during the early stages of planning a project and actual total cumulative costs incurred are tracked, monitored, and compared to the cumulative line item budgets for the duration of the project and be available to DOR

management staff at least monthly. Without sufficient budgetary controls in place, Tax Gap costs may exceed necessary and reasonable costs, which could result in inefficient or inappropriate use of taxpayers' money.

As part of an overall project plan, it is important a detailed line item budget be developed and used from the start of a project through completion. The budget should periodically be compared to actual revenue collected and costs incurred to monitor and identify whether revenue is sufficient and cost over-runs or items which may need adjustment. Budgetary oversight would be improved by including comprehensive tracking and monitoring of the cumulative total Tax Gap actual total expenditures compared to line item budgets over the life of the project. As of June 30, 2014, DOR has spent approximately $69.6 million for planning, development, implementation, upgrades, maintenance and on-going operations. Findings regarding budgeting and funding for DOR are summarized in **Finding B**.

IPERS – IPERS operations and all related projects, including the I-Que project, are funded from the IPERS Trust Fund. IPERS does not receive an appropriation from the State's General Fund or other funding sources. Any trust fund monies which are budgeted but not expended during a fiscal year are required to remain within the IPERS Trust Fund. Each year, the Legislature makes a single appropriation from the IPERS Trust Fund for benefits administration expenses, including funding for the I-Que project.

Several years ago, IPERS representatives estimated the total cost to develop and implement the I-Que system would range from $25 to $30 million over an estimated period of 5 years. The system project timeline has been extended by more than 1.5 years from the original projection. According to IPERS staff we spoke with, the longer timeline reflects the very complex nature of the IPERS plan design, changes necessitated by legislative action and IPERS' goal to do it right the first time. IPERS representatives believe the initial 3 goals, reducing inefficiencies, reducing risk, and increasing service, will be met by the I-Que project and will provide benefits far into the future. IPERS estimates the useful life of the I-Que system at 15 years. As of June 30, 2014, IPERS has spent approximately $34.2 million for planning, development, implementation, upgrades, maintenance, and on-going operations.

We reviewed and tested available information and did not identify any significant findings related to budgeting and funding for IPERS.

Contracting and Monitoring – DAS Administrative Rules contained in Chapters 106 and 107 of the Iowa Administrative Code (IAC) require state agencies to use a competitive selection process to acquire services equal to or greater than $5,000 unless there is adequate justification for a sole source or emergency procurement. The use of sole source procurement does not relieve a state department from negotiating a fair and reasonable price and thoroughly documenting the procurement action. These sections also include specific clauses to be included in contracts and a requirement each department establish internal controls and procedures to initiate purchases, complete solicitations, make awards, approve purchases, and receive goods.

As part of a good contract management system, all State agencies are expected to monitor activity and payments related to contracts and related statements of work, purchase orders, or other similar documents which list the goods and services to be procured to ensure what was purchased is received and appropriate.

DAS issues Invitations to Qualify (ITQ) for information technology (IT) consulting services and IT staff augmentation. The ITQ process is utilized to prequalify contractors in order to participate in State bidding opportunities. The ITQ serves to establish basic terms and conditions for contracts. The ITQ process may not be utilized to procure directly from the provider. State agencies are still required to use a competitive bid process when choosing a contractor from among the qualified ITQ providers prior to award of a contract.

DOC - As previously stated, DOC contracted with ATG to design and implement the ICON system. A competitive bidding process was not used by DOC to select ATG. The State's policy in effect at the time required expenditures of public funds for service contracts to be done through an open, competitive process. The following timeline summarizes events related to the development of the ICON System.

- 1998 – The DOC selection committee chose Advanced Technologies Group, Inc. (ATG) to design the ICON system. A competitive bidding process was not used by DOC to select ATG.

- January 1, 1999 - DOC and ATG entered into a perpetual software license agreement to design and implement the initial unified banking module of the ICON system. The agreement was only signed by ATG.

- March 23, 2000 – DOC and ATG entered into a software distribution agreement. The agreement was approved by representatives of DOC, ATG, and the Attorney General's Office. The compensation section of the March 2000 software distribution agreement transferred ownership of the ICON banking system and ICON offender management to ATG in exchange for ATG splitting all profits with DOC from marketing the system to other agencies. DOC representatives stated they were unable to locate support showing how much has been received from ATG under this agreement.

  An ATG representative stated ATG remitted approximately $400,000 to DOC in 2001 or 2002. We subsequently requested DOC provide a listing of all amounts received from ATG related to ICON. **Table 2** summarizes the total DOC reported it received from ATG.

Table 2

Collections from ATG			
Receipt Date	**Receipt #**	**Receipt Memo**	**Amount**
12/03/2002	113797	Technology funds	$ 390,000
12/03/2002	113797	Technology funds	1,026,660
12/09/2003	113923	Technology	1,121,347
01/04/2006	449568	Sale of ICON	283,467
01/02/2007	117449	Sale of Software	824,875
Total			$3,646,349

  According to DOC staff, the proceeds received from ATG in fiscal years 2006 and 2007 were for sales prior to the July 27, 2003 amendment. However, due to programming, deployment, and a 2-year warranty period; the proceeds were not received until fiscal years 2006 and 2007, more than 2 years after the July 27, 2003 amendment.

- July 27, 2003 - DOC and ATG amended the March 23, 2000 software distribution agreement and deleted the compensation clause included in the agreement. As stated in the "Review of Statewide Procurement" report, a representative of the Attorney General's office we spoke with did not have any record of amendments to the March 2000 software distribution agreement which demonstrate the contract was no longer valid.

As a result of the July 27, 2003 contract amendment, DOC is no longer authorized to share in profits from the sale of ICON system modules. While DOC received some funds from ATG for the sale of the banking module, we question the reasonableness of canceling a contract clause which would have allowed DOC to collect revenue from the sale of other system modules. As shown in **Table 2**, DOC received over $3.6 million from ATG. According to DOC staff, the funds were used to offset maintenance costs and to pay for upgrades and enhancements to ICON. DOC may have realized additional revenue which could have been used to offset ICON costs had the compensation clause included in the March 23, 2000 agreement not been canceled.

During follow-up discussions, DOC representatives stated the following:

- All of the receipts from ATG pertained to the sale of the banking system.

- After the federal government purchased the base banking system, the federal government dramatically expanded the system, resulting in the State of Iowa's base system becoming obsolete and of little to no value to other customers.

- March 10, 2009 - Due to concerns raised regarding significant payments to ATG and insufficient documentation in the files, we met with the DOC Director and corresponded with DOC officials in order to understand the relationship between DOC and ATG. DOC provided us a copy of a letter dated March 10, 2009 in which the Director summarizes the history of DOC's working relationship with ATG. In the letter, the Director states, "ATG was selected because the Director and the selection committee liked ATG's approach and ATG was classified as a TSB (*Targeted Small Business*) at the time." In addition, the letter indicates DOC used the services of ATG under an agreement for IT services which was previously entered into by DAS with ATG. A copy of the letter is included as **Appendix A.**

- October 4, 2010 – A new contract covering the period September 23, 2010 through September 23, 2016 was signed. The contract was negotiated as a result of questions and concerns raised during our review of Statewide Procurement. The "Review of Statewide Procurement" report was issued on December 5, 2011. The contract is in compliance with the current IAC.

  The total cost of the contract over a 6 year period is $6,148,800. DOC will pay monthly fees of $76,400 for software maintenance and $9,000 for server administration and hosting services. The agreement also allows for a 6% maximum increase in cost for each year and additional costs may be incurred by DOC if customizations are agreed to under the ATG contract.

Because DOC did not have a formal service contract for the development and implementation of ICON until September 23, 2010, DOC was not in compliance with services contracting laws and DAS Administrative Rules and procedures for service contracts from 1999 through September 22, 2010.

The March 2009 letter received from the DOC Director states, "Over the years a virtual sole source relationship has developed between ATG and the DOC". While DOC considered ATG to be a sole source contractor over the years, DOC was unable to provide supporting documentation required by the State's contracting rules contained in DAS Administrative Rules since at least April 1999 to justify a sole source contractor or an evaluation of an employer/employee relationship.

While ATG was initially a TSB, section 73.21 of the 1997 *Code* and State contracting laws in effect at the time required all laws and rules pertaining to solicitations, bid evaluations, contract awards and other procurement matters to apply to procurement contracts for TSBs to the extent there is no conflict. Executive Order 60 dated May 19, 1997 states, in part, "To maintain public confidence every reasonable effort must be made to insure that commitments of public funds for services be done so as to obtain the most value for the money spent." Because a competitive process was not used to select ATG for significant IT services, DOC was not able to demonstrate the best value was obtained.

As a result of reviewing and testing contracting and monitoring, we identified findings regarding a lack of documentation to demonstrate why a bidding process was not used, lack of a comprehensive service contract, lack of compliance with services contracting laws and rules and no formal basis to effectively monitor ATG's completion of services and provision of software and equipment from 1998 through September 2010. Because a formal bidding process was not used, there is no guarantee the State is receiving the best value.

Findings related to contracting and monitoring for DOC are summarized in **Finding C**.

DAS – As previously stated, DAS contracted with CGI for the development, implementation, upgrades, maintenance, and enhancements for the I/3 system. The initial contract for I/3 development and implementation was for a 3 year period from September 30, 2002 through September 30, 2005 at a total cost of $9,447,678. The initial contract also included 3 one-year renewal options.

DAS exercised the 3 one-year renewal options and agreed to 30 change orders from December 16, 2002 through June 1, 2008. As a result of the 30 change orders, the total cost of the contract increased $4,209,625 to a total of $13,657,303, an increase of 45%. The options and change orders exercised by DAS under the CGI contract included upgrade support, software licenses, maintenance, training, and technical support for resolution of various on-going technical issues.

On July 1, 2008, DAS entered into a proprietary software maintenance agreement with CGI with a total cost of $2,368,652 and subsequently amended the agreement to continue through June 30, 2014. DAS, in consultation with the Attorney General's Office, classified the contract as a sole source procurement contract. DAS later re-negotiated the agreement to reduce the maintenance pricing. The revised contract covers the period July 1, 2010 through June 30, 2014 at a total cost of $3,317,290. The total combined cost of the software maintenance agreement as of June 30, 2014 is $5,685,942.

DAS also agreed to a Statement of Work (SOW) with CGI for consulting services, such as automated testing of upgrades to I/3, training, support, and upgrade services on an as needed basis through June 30, 2014. The combined total cost of the SOW is $501,798. The SOW covered the period November 9, 2010 through June 30, 2012. As a result, the total cost of the CGI contract for the period September 30, 2002 through June 30, 2014 is approximately $19.9 million.

Table 3 summarizes the total paid to CGI for consulting and professional services, system software, maintenance, and training related to I/3 for fiscal years 2003 through 2014.

Table 3

Payments to CGI					
Fiscal Year	**Consulting & Professional Services**	**System Software**	**System Maintenance**	**Training**	**Total**
2003	$ 1,507,268	450,000	-	-	1,957,268
2004	2,429,960	422,390	135,713	353,056	3,341,119
2005	705,939	23,600	910,790	127,145	1,767,474
2006	2,204,279	133,243	-	-	2,337,522
2007	1,322,240	9,700	108,041	4,000	1,443,981
2008	852,602	150,800	641,175	18,224	1,662,801
2009	79,128	208,281	620,571	14,416	922,396
2010	-	-	909,322	-	909,322
2011	134,711	-	998,697	-	1,133,408
2012*	14,550	-	1,124,063	4,000	1,142,613
2013	33,785	-	1,468,188	-	1,501,973
2014	25,090	222,933	1,509,883	-	1,757,906
Total	$ 9,309,552	1,620,947	8,426,443	520,841	19,877,783

***** - Because the HRM system was not completed or restarted by June 30, 2008, DAS negotiated and received $150,000 of credit from CGI. The credit was used for Consulting and Professional Services and System Maintenance during fiscal year 2012.

As illustrated by the **Table**, DAS paid CGI approximately $9.3 million, or 47%, for consulting and professional services, $8.5 million, or 42%, for I/3 system maintenance, $1.6 million, or 8%, for I/3 system software and $0.5 million, or 3%, for training. A summary of the agreements between DAS and CGI is included in **Schedule 1**.

As of June 30, 2014, the total cost of I/3 services provided by CGI is $19,877,783. As previously stated, DAS is currently negotiating a 2-year extension of the CGI system maintenance contract.

We reviewed and evaluated examples of monitoring performed by DAS over the CGI contract. Based on the review, we determined current DAS staff is adequately monitoring the CGI contract. If a change is identified by DAS or CGI, DAS evaluates the need for the change and then requests a change order be prepared by CGI with estimated cost revisions to be reviewed and approved by DAS. However, we identified concerns with contracting and monitoring performed primarily by former DAS staff responsible for administration of I/3, as follows:

- Former DAS staff responsible for administration of I/3 agreed to 30 change orders under the CGI contract during fiscal years 2003 through 2008 and extended the contract multiple times over the life of I/3. As a result, the initial CGI contract amount agreed to was increased by $4,209,625, or 45%, from $9,447,678 on September 30, 2002 to $13,657,303 on June 1, 2008, the effective date of change order 30.

- 25 of 30, or 83%, of the change orders agreed to by DAS with CGI were approved after the effective date of the change order. The number of days from the effective date to the approval date ranged from 16 to 216 days. As a result, many of the change order were in process or completed prior to being signed.

- CGI contract change order summaries completed by DAS during fiscal years 2003 and 2004 did not consistently include a sufficient summary of costs to be incurred

for additional goods and services to be provided. For example, change order 6, effective August 18, 2003, did not include the $216,000 increase in system maintenance cost. As a result, the former DAS Director or other staff would not have known of the cost increase unless the Director reviewed or inquired about related details of the contract.

- Because the HRM system was not successfully completed by CGI under the I/3 contracts, State agencies continue using the outdated HRIS and centralized payroll systems for human resources and payroll needs. DAS Human Resources Enterprise (HRE) and State Accounting Enterprise (SAE) staff continue planning and improving the outdated systems to meet the needs of users.

- As of June 30, 2014, State agencies are not using the inventory and contractor self-service modules developed under the CGI contract. However, DAS is in the process of testing and developing procedures for implementation of the contractor self-service module. DAS plans to implement contractor self-service within a year. In addition, 24 State agencies are currently using the fixed asset module. DAS is unable to provide a breakdown of costs associated with development of the inventory and contractor self-service modules because DAS did not account for and maintain the specific cost of each module.

- Invoices submitted for payment by CGI during fiscal years 2003 through 2005 typically did not include sufficient detail necessary to determine if the State received what was agreed to under the contract. Subsequent to June 30, 2005, invoices submitted by CGI typically included sufficient detail to allow DAS to determine if it received the goods/services specified in the contract.

As a result of reviewing contracting and monitoring for DAS, we identified findings regarding excessive change orders and increased costs, the HRM system not being completed as required by the contract, some modules not being used and lack of sufficient detail for monitoring contract expenditures. Findings related to contracting and monitoring by DAS are summarized in **Finding C**.

DOR - In November 1999, DOR entered into a $13 million performance-based contract with NCR Government Systems Corporation (NCR) for provision of professional services and software to design, develop, and implement a data warehouse and automated audit processing and transaction system to help identify non-filers of returns or non-payers of taxes for audit (Tax Gap). The initial contract with NCR covered a 3½ year period with the option of 2 consecutive one-year extensions. DOR continued to enter into extensions through July 2007. In January 2007, NCR announced its intention to spin-off its Teradata division into Teradata Corporation (Teradata). Effective August 1, 2007, DOR approved Teradata's assumption of the Tax Gap contracts entered into with NCR.

The initial Tax Gap contract covered the period November 5, 1999 through May 5, 2003 and included 2 one-year extension options. The contract and extension options cover maintenance and training services, expanded the enterprise data warehouse (EDW) for additional DOR functionality, and the purchase of additional effort from Teradata, all at prices to be separately negotiated. DOR chose to extend the contract expiration date of the initial Tax Gap agreement for the 2 years allowed under the initial agreement and subsequently agreed to multiple additional addendums and extensions. As a result, the total initial contract increased by approximately $3 million, or 23%, to $16 million.

The Statement of Work (SOW) included in the initial Tax Gap contract required Teradata to provide:

- accurate identification and scoring of non-filer and under reporter cases resulting in increased revenue and improved compliance regarding corporate taxes, sales and use taxes, and personal income taxes,

- a fully functional case management system meeting DOR's requirements for automation of work process in the Audit Division,

- an EDW with a set of non-compliance detection tools,

- an audit selection system, and

- knowledge transfer, including formal education, to enable DOR to fully utilize the power of the detailed data in the EDW.

However, DOR did not ensure sufficient knowledge transfer was performed by Teradata as agreed under the initial Tax Gap contract. Rather, DOR chose to continue its contractual relationship with Teradata beyond December 2006 by agreeing to additional Tax Gap contracts and multiple extensions, addendums, and amendments to extend the expiration dates of the contracts and increase the contract amounts. If all the contract extensions are exercised, the total cost of all Teradata contracts will be $23,787,065 and the contract will be extended to March 14, 2019. The $23,787,065 includes:

- $16,043,480 for the initial Tax Gap Compliance Program contract, as follows:

    - Initial contract amount of $13 million effective from November 5, 1999 through May 5, 2003 with 2 consecutive 1-year options to extend,

    - An increase of $3,043,480 (23.4%) as a result of extending the contract multiple times for additional IT consulting services and case management system maintenance and enhancement services from December 16, 2002 through December 31, 2006.

- $4,952,061 for case management system application maintenance and enhancement services, as follows:

    - Effective December 1, 2006, $1,152,000 to retain Teradata, with The Sartell Group as subcontractor, for case management system maintenance and enhancement services under Tax Gap through November 30, 2009, including options to renew for 3 additional 1-year extension periods.

    - A $1,736,208 increase for case management system maintenance and enhancement services as a result of extending the contract 3 times through November 30, 2012 and a $25,461 increase for additional services for case management system application subscriptions and maintenance services relevant to production, testing, and web support.

    - Effective December 1, 2012, $1,228,392 to retain Teradata, with The Sartell Group as subcontractor, to provide continued maintenance and support to the case management system application of Tax Gap. The contract includes renewal options, including up to 5 1-year extensions through November 30, 2018.

- Effective September 11, 2013, $810,000 to retain Teradata, with The Sartell Group as subcontractor, to provide continued enhancement services to the case management system application of Tax Gap. The contract includes renewal options, including up to 5 1-year extensions through September 10, 2019.

- $1,550,709 for Teradata database administrator services for EDW at DOR, as follows:
  - $245,440 for EDW services from July 1, 2006 through June 30, 2007.
  - A $1,305,269 increase to the contract as a result of 5 one-year extensions agreed to by DOR from July 1, 2007 through June 30, 2012, including additional services for extended database maintenance, web support services, and software upgrade services.

- $36,000 for Teradata remote system database administration support from July 1, 2010 through June 30, 2012.

- $1,204,815 for a Teradata 560 server, including hardware, software, and maintenance services from March 15, 2013 through March 14, 2014. The agreement includes 5 one year extensions which could extend the contract through March 14, 2019 if all the extensions are exercised.

Schedule 2 summarizes the contracts entered into by DOR with Teradata for Tax Gap in more detail. As demonstrated by **Schedule 2**, DOR agreed to extend contract expiration dates 28 times and increase contract amounts 30 times by executing extensions, addendums, statements of work, amendments, and additional contracts with Teradata. As a result of the long-term contractual relationship DOR established with Teradata, the combined total of Tax Gap contracts increased from the initial $13 million on November 5, 1999 to approximately $23.8 million as of June 30, 2014, an increase of approximately $10.8 million (83%). Any services performed by Teradata or The Sartell Group which are not covered by the contracts summarized in **Schedule 2** are billed to DOR at an hourly rate of $150.

As of June 30, 2014, DOR had the option under the contracts to continue using Teradata for equipment, software, maintenance, and professional services, with The Sartell Group as subcontractor for the case management system maintenance through March 14, 2019. In addition, DOR negotiated an agreement on September 11, 2013 to continue using Teradata, with The Sartell Group as subcontractor, for the case management system application enhancement services through September 10, 2019.

Excessive Hourly Rates and Amounts Paid Under Contracts – Database administrator services (DBA) were provided to DOR under the initial Tax Gap contract and the subsequent separate Teradata contract. The contract expiration date was extended multiple times to continue DBA services from December 2002 through June 30, 2012. According to representatives of DOR, the Teradata DBA contract expired on June 30, 2012 and was not renewed. **Table 4** summarizes the hourly rates and contract amounts agreed to by DOR with Teradata for services of the EDW DBA from December 16, 2002 to June 30, 2012.

Table 4

Contracts with Teradata		
Contract Duration	**Hourly Rate**	**Contract Total**
Initial Teradata Contract		
12/16/2002 to 12/21/2003	$ 165.00	$ 330,000
12/22/2003 to 06/30/2005	170.00	530,400
07/01/2005 to 12/31/2005	150.00	156,000
12/28/2005 to 06/30/2006	160.00	166,400
Subtotal		1,182,800
Teradata DBA Contract		
07/01/2006 to 06/30/2008	118.00	490,880
07/01/2008 to 06/30/2009	121.54	252,803
07/01/2009 to 06/30/2010	125.19	260,395
06/07/2010 to 06/11/2010*	-	4,485
07/01/2010 to 06/30/2011	125.19	260,395
07/01/2011 to 06/30/2012	123.19	256,235
04/09/2012 to 05/01/2012^	-	3,241
04/09/2012 to 05/01/2012~	-	22,275
Subtotal		1,550,709
Total		$ 2,733,509

* - SOW for advanced security work on the Tax Gap system for a fixed fee of $4,485 for 3 days within a 5 day period of service between June 7 and June 11, 2010.

^ - Attachment to the DBA contract for extended database maintenance and web support services.

~ - Attachment to the DBA contract for software upgrade services for 3 end-of-life products, including major upgrade of Teradata 5400 to 13.0.1, non-Teradata platform to 13.0.1 and non-Teradata platform to 13.0.0.

The **Table** shows approximately $2.7 million of the $23.8 million contract with Teradata was expended for EDW DBA services over a 10-year period. The initial contract for $330,000 was based on 2,000 hours of service. The contract from December 22, 2003 through June 30, 2012 was based on a minimum of 40 hours of service per week. The SOW for advanced security work on the Tax Gap system server did not include an hourly rate. The term of the SOW was for 3 days within a 5 day period. Based on an 8 hour day, the hourly rate would be approximately $186.87, which is about the same as the $186 hourly rate billed under the initial Tax Gap contract for services of a business analyst. The $186 hourly rate is the highest rate which was contracted and billed by Teradata.

In addition, the **Table** shows hourly rates paid under the initial Teradata contract range from $150 to $170 per hour. Under the subsequent DBA contract, the hourly rate from July 1, 2006 through June 30, 2008 was $118 per hour, $33 per hour higher than the $85 preferred hourly rate stated in DOR's May 2006 Request for Proposal for DBA services. The highest hourly rate

billed by Teradata for DBA services was $170 from December 2003 to June 2005. The $170 hourly rate is twice as much as the $85 hourly rate included in the May 2006 Request for Proposal for DBA services.

Effective July 1, 2012, DOR began using in-house staff who had developed the expertise to run queries. DOR also continues to employ a second DBA under a contract with Quest Solutions for additional database administration services which DOR staff are not qualified to perform. From December 16, 2002 through June 30, 2014, DOR paid a total of $2,044,094 for on-going data warehouse services performed under 3 different contracts, as follows:

- $323,400 was paid to Teradata for EDW consulting services billed at $165 per hour for 1,960 hours during December 16, 2002 through December 21, 2003,

- $230,683 was paid to Merit Resources, Inc. (Merit) for EDW consulting services provided to DOR under the State's contract with Merit, including $68,593 in fiscal year 2004 and $162,090 in fiscal year 2005 and

- $1,490,011 was paid to Quest Solutions for EDW consulting services from July 22, 2005 through June 30, 2014. Hourly rates in effect under the contracts with Quest Solutions ranged from $73.50 in fiscal year 2005 to $95.00 in fiscal year 2014. The hourly rates agreed to by DOR with Quest Solutions over the following 3 fiscal years are $100, $105 and $110, respectively, through June 30, 2017.

According to a representative of DOR, Teradata programming expertise is required for work performed by the consultants under contract with DOR. If Tax Gap consulting work could be performed by a State employee, the employee would need to be at least an Information Technology Specialist (ITS) 5 to be qualified and would need to be trained. The representative also stated it is very difficult to find people with Teradata experience and skills which are similar to those of the consultants. According to the State's Human Resources Enterprise website, the annual pay range for an ITS 5 is from $61,900.80 to $98,092.80 at an hourly rate ranging from $29.76 to $47.16. Although the work is specialized, under the terms of the contract, Teradata was to provide some knowledge transfer to DOR. If the knowledge transfer had taken place earlier in the project, DOR would have been able to hire staff to avoid paying the higher hourly rates for the same consulting service.

If DOR had hired an individual with similar skills as a State employee to perform the DBA services which were contracted with Teradata from December 16, 2002 through June 30, 2012, it would have cost DOR an estimated $1.3 million over the 10 1/2-year period, including an estimated $380,000 for fringe benefits. As stated previously, approximately $2.7 million was paid to Teradata for DBA services of 1 individual over a 10-year period. If DOR had hired a State employee to perform the DBA services for Tax Gap rather than contracting for those services, DOR would have saved the State an estimated $1.4 million.

In addition, under the 3 contracts for DBA services summarized previously, DOR paid approximately $2.0 million for use of the other primary consultant used by DOR over the 10 year period. If DOR had hired another State employee as an ITS 5 to perform the DBA services for Tax Gap rather than contracting for those services, it would have cost DOR an estimated $1 million plus fringe benefits over the 10-year period. In calendar/fiscal year 2013, the State's average fringe benefit rate was estimated at 38.0% of an individual's gross salary. As a result, DOR would have saved the State an estimated $0.6 million after estimated fringe benefits over the 10 year period.

Table 5 summarizes the amount paid to Teradata by fiscal year through June 30, 2014.

Table 5

DOR Payments to Teradata	
Fiscal Year	**Amount**
2000	$ 111,842
2001	3,595,659
2002	7,339,302
2003	1,195,408
2004	1,063,877
2005	712,860
2006	709,430
2007	590,126
2008	663,112
2009	709,501
2010	642,091
2011	878,586
2012	998,969
2013	685,669
2014	404,129
Total	$ 20,300,561

The $20.3 million paid by DOR to Teradata is approximately 68% of the $30 million total spent by DOR for computer equipment, software, system development, implementation, maintenance, upgrades, enhancements, and consulting services during fiscal years 2000 through 2014, and is approximately 29% of the $69.6 million spent by DOR for Tax Gap.

We reviewed DOR's compliance with relevant *Code* sections and DAS Administrative Rules and procedures regarding contracting for goods and services and contract monitoring. We identified several concerns regarding the long-term contractual relationships established with Teradata, using The Sartell Group as subcontractor, and Quest Solutions, as follows.

Impact of Multiple Contract Changes – DOR entered into contracts with Teradata for the following services: on-going Tax Gap services, AC application maintenance, Teradata database administration, Teradata 560, and a potential AC application enhancement contract. As a result, Teradata could use its position as the main provider of Tax Gap services to negotiate higher contract rates than if DOR could bid out the components of the system. Long-term service providers could take advantage of the situation because they believe they are apparently the only service provider available or are best suited to meet the Tax Gap system needs and may increase the cost.

There are often legitimate reasons for service contracts to be amended. Projects may take longer than anticipated or unexpected issues may arise. However, if service contracts are amended too easily and frequently, the competitive process could be hindered.

On-Going Reliance of DOR on Contractors and Increased Contracting Costs - The intent of the initial $13 million Tax Gap contract was for Tax Gap system work to be completed and placed in operation no later than December 2006. DOR chose to continue its contractual relationship with Teradata beyond December 2006 by agreeing to multiple extensions, addendums, SOWs, and amendments. In addition, DOR agreed to use The Sartell Group as a subcontractor for AC

application maintenance and enhancement services. If all options under the Teradata contracts, including the subcontract with Sartell Group, are exercised, the contract will run through September 10, 2019.

DOR also established an on-going contractual relationship with Quest Solutions for EDW database administration services. If all the renewal options are exercised, the contract will run through June 30, 2017. As previously stated, from December 16, 2002 through June 30, 2014, DOR has paid approximately $2 million for on-going data warehouse services performed under the 3 different contracts, including $323,400 paid to Teradata, $230,683 paid to Merit Resources, Inc. and $1,490,011 paid to Quest Solutions for EDW consulting services.

Lack of Knowledge Transfer – Under the initial contract, Teradata was to transfer knowledge to DOR. The purpose of the knowledge transfer clause was to ensure DOR staff could run the necessary queries of the AC component of the Tax Gap system instead of paying an outside firm to develop and run the queries for them. DOR did not hold Teradata to this requirement. Instead, DOR chose to continue reliance on Teradata for Tax Gap services, including use of The Sartell Group under subcontract with Teradata, for AC application maintenance and enhancement services. As noted above, DOR continues to use Teradata and the Sartell Group to provide services for the Tax Gap system. As a result, DOR may have incurred costs which could have been avoided had the knowledge transfer taken place as included in the initial contract terms.

Non-compliance with Advertising Clause of Initial Contract - The initial contract with Teradata includes an advertising clause which prohibits Teradata from creating commercial advertising which states or implies Teradata is endorsed by DOR or the State. We identified several instances were Teradata posted articles to its web site and which included quotes from DOR employees, who later left DOR for jobs at Teradata. The employees worked on the Tax Gap system while employed by DOR. The former employees worked on Tax Gap for DOR at the time the documents were created by Teradata. Teradata's inclusion of the direct quotes of former DOR employees implies endorsement of Teradata by DOR and the State of Iowa and may violate the advertising clause of the contract.

As a result of reviewing and testing contracting and monitoring for DOR, we identified findings regarding the impact of multiple contract changes, on-going reliance on contractors, increased contracting costs, excessive hourly rates and amounts paid in accordance with the contracts, lack of knowledge transfer required by the initial Teradata contract, and non-compliance with the advertising clause of the initial Teradata contract. Findings related to contracting and monitoring for DOR are summarized in **Finding C**.

IPERS – IPERS signed contracts with several contractors for consulting and the development of the I-Que system. All contractors were selected using a RFP/competitive process. The contractors and the services provided are as follows:

- L. R. Wechsler, Ltd. (Wechsler) – Provided consulting services, including independent verification, validation and quality assurance, from July, 2005 through June 30, 2009. The total cost of the contract and amendments was $1,888,812.
- ICON Integration and Design, Inc. – The contract provided data quality management and data profiling services, including data mapping, conversation, cleansing, and a data bridging plan. The contract also provided for the collection, sorting, and converting of the data from the old system to the new system. The total cost of the contract and amendments as of June 30, 2012 was $2,621,451.
- Vitech Systems Group, Inc. (Vitech) – Provided design and implementation services for a new benefits system to meet IPERS needs. The contract and amendments cover the development and implementation of the I-Que system, software updates and upgrades, support, maintenance, and enhancement services. The total cost of the contract, including enhancement hours, is $20,935,072. The amendment covering the

enhancement hours runs through December 31, 2016. The cost includes $650,000 paid by IPERS for a performance bond. Performance bond costs are typically paid by the contractor because they are responsible for providing the deliverables agreed to under contract. According to IPERS staff we spoke with, IPERS decided during the RFP process to request extra protection under the performance bond and IPERS choose to pay the additional related bond costs.

Payments made by IPERS to the 3 primary contractors used for the I-Que system project are summarized in **Table 6**.

Table 6

IPERS Payments for I-QUE

Fiscal Year	L.R. Wechsler, Ltd.	ICON Integration and Design, Inc.	Vitech Systems Group, Inc.	Total Primary Contractor Costs
2006	$ 551,520	-	-	551,520
2007	419,702	124,173	4,553,547	5,097,422
2008	305,885	610,634	1,987,593	2,904,112
2009	292,716	628,061	3,451,896	4,372,673
2010	-	503,910	3,393,157	3,897,067
2011	-	384,210	3,960,000	4,344,210
2012	-	379,531	2,116,803	2,496,334
2013	-	-	1,215,880	1,215,880
2014	-	-	3,461,616	3,461,616
Total	$ 1,569,823	2,630,519	24,140,492	28,340,834

As demonstrated by the **Table**, approximately $28.3 million was paid to the 3 primary contractors. As previously stated, IPERS spent approximately $34.2 million for the I-Que system which was fully implemented in fiscal year 2014. The $28.3 million paid to the 3 primary contractors represents 83% of the $34.2 million spent by IPERS for the I-Que system.

IPERS monitors activity related to its contracts to ensure the contractors provide goods and services as required by the contracts. Some examples of IPERS I-Que contract monitoring and evaluation documentation are as follows:

- The contract with Wechsler requires monthly status reports and a quarterly assessment report be prepared and submitted. IPERS reviews these reports to ensure the project remains on time and budget or identify any issues which may delay the project or indicate problems which require additional work.
- The Wechsler, Vitech and ICON Integration and Design Inc. contracts include measurable deliverables. Specific deliverables are included in the contracts and scheduled payments are aligned by IPERS with sufficient completion of deliverables under the contracts. IPERS management reviews all invoices submitted by contract contractors to ensure compliance with specific payment schedules associated with completion of specific deliverables under the contracts. IPERS does not pay the contractor until deliverables are sufficiently completed and approved.
- The payment schedules of the Wechsler, Vitech, and ICON Integration and Design Inc. contracts include timelines, milestones, and performance measures. IPERS monitors completion of work within agreed to timelines and milestones and determines whether contractors' performance was sufficient under the contracts.

Our review of the contracts and amendments entered into by IPERS identified 4 instances where the contract was signed after the effective date of the contract. The number of days after the effective date ranged from 20 to 63 days. We also identified 5 instances where the date the amendment was signed was not included. As a result, we could not determine if the amendments were signed prior to the effective date.

As required under the services contracting procedures contained in section IV. (9) of DAS SAE Procedure 240.102, "Contracted services are not to be performed until all signatures are obtained and distribution of contract copies is made to the parties."

Findings related to contracting and monitoring for IPERS are summarized in **Finding C**.

Reporting – Reporting provides a way for interested parties to ensure the efficient use of resources and to determine if the projects are meeting set goals. In accordance with Chapter 7E of the *Code*, all Departments are required to submit a report in November each year on the operations of the Department, including the goals and objectives of the Department. We also identified specific sections which require Departments to report the status of their projects to the Legislature.

DOC - During the early years of development of the ICON system, the Legislature established ICON reporting requirements for DOC. During the 2003 legislative session, the reporting requirements were revised by section 5 of Senate File 439 of the 2003 Acts of the General Assembly, as follows:

> *"The department of corrections shall submit a report to the co-chairpersons and ranking members of the joint appropriations subcommittee on the justice system and the legislative fiscal bureau, on or before January 15, 2004, concerning the development and implementation of the Iowa corrections offender network (ICON) data system."*

As a result of the 2003 legislation, DOC was not required to report ICON information to the extent required by the 2000 legislation. In accordance with section 904.115 of the *Code*, DOC is required to submit an annual report to the Governor and Legislature summarizing overall activity for the year. In addition, section 904.116 of the *Code* requires a monthly report to the LSA and the Ways and Means Committee (the Committee) which includes the total revenues by source and total expenditures by class description as related to enactment of State appropriations. As a result, DOC continues to provide information on the ICON system which helps the Legislature to evaluate DOC's administration of the system and proposals for future modules.

As previously stated, DOC receives State Criminal Alien Assistance Program (SCAAP) funds from the U.S. Department of Justice. There are no specific federal reporting requirements established for the SCAAP program. Funds awarded under SCAAP are not restricted and may be used by DOC for any correctional purpose not prohibited by law, including work on the ICON system.

We reviewed the most recent DOC reports submitted to the Governor and the Legislature and determined DOC is in compliance with the reporting requirements. Because the reports provided are only summary in nature, DOC should consider developing information to monitor and assess the cost of each ICON module and the specific status and accomplishments related to funds used for each module. This information should be maintained and made available to the Legislature or other interested parties, if requested.

We also determined the monthly reports submitted to the LSA comply with the reporting requirements. However, we determined the monthly reports include only a portion of the funding and expenditures for ICON. For example, the monthly reports submitted to LSA do not include the amount of federal SCAAP funds and funds obtained from other correctional facilities to cover ICON costs. As of June 30, 2014, DOC has used a total of approximately $5.1 million of federal SCAAP funds and $8.7 million of other correctional facilities' funds for ICON since inception.

According to DOC staff we spoke with, DOC submits monthly reports to the LSA which include activity for the ICON appropriation (A21) and the ICON network appropriation (A23). If information submitted to LSA is insufficient for the needs of the Legislature, the LSA has in the past requested additional information from DOC. DOC representatives also stated they have not received any communication from LSA regarding inadequacies of the reports submitted.

As a result of reviewing and testing reporting requirements, we identified reporting should be improved to ensure comprehensive funding and expenditure information is provided to DOC management, the Legislature, and the Governor. As stated previously, we believe the information reported by DOC does not include enough information to allow effective monitoring and assessment of specific use of the funds for ICON, the cost of each ICON module and the specific status and accomplishments related to funds used for each module. Findings related to reporting for DAC are summarized in **Finding D**.

DAS - Chapter 7E of the *Code* requires DAS to submit an annual report to the Governor and the Legislature on the operation of the Department. The annual report includes a brief summary of I/3, including its status, issues, and accomplishments. Although DAS complied with the reporting requirements of the *Code*, we believe more specific reporting of I/3 activity relevant to development and implementation of I/3 modules, including examples of the most significant costs of completing each module and issues encountered, would be useful to management, the Legislature and the Governor.

While the annual reports briefly summarized the most significant issues encountered in I/3 implementation, it did not present costs associated with resolving those issues. In addition, the annual reports did not present a summary of costs incurred to date for I/3 in total and for each module completed and/or in progress, and future anticipated costs.

DAS should consider if periodic reports, such as project status reports, budget to actual reports, and reports showing progress toward milestones and goals, should be prepared to monitor and assess the cost and status of the I/3 system. This information should be maintained and made available to the Legislature or other interested parties, if requested. DAS should also determine if it would be beneficial to track costs incurred for each I/3 module developed and implemented to date, including, but not limited to, names of primary IT providers and the cost of IT goods and services, maintenance, upgrades, and enhancements. Findings related to reporting for DAS are summarized in **Finding D**.

DOR – Chapter 422.75 of the *Code* requires DOR to submit an annual report to the Governor and Legislature. The annual report is to include statistics reasonably available with respect to DOR operations, including amounts collected, classification of taxpayers, and such other facts as are deemed pertinent and valuable. Tax Gap information was reported by DOR in supplemental reports to the DOR annual reports through fiscal year 2010.

The supplemental reports include Tax Gap information, such as a summary of the major system components, enhancements, initiatives, examples of data matching, data sharing, and total revenue collected during the fiscal year being reported on, and a 5-year comparison of Tax Gap revenue received. However, the DOR annual reports for fiscal years 2011 through 2013 do not include Tax Gap information previously included in the supplemental reports.

In addition, the Legislature established a specific reporting requirement for Tax Gap which is contained in section 421.17(23) of the *Code*, as follows:

> *"To develop, modify, or contract with contractors to create or administer systems or programs which identify nonfilers of returns or nonpayers of taxes administered by the department. Fees for services, reimbursements, costs incurred by the department, or other remuneration may be funded from the amount of tax, penalty, or interest actually collected and shall be paid only after the amount is collected. An amount is appropriated from the amount of tax, penalty, and interest actually collected, not to*

exceed the amount collected, which is sufficient to pay for services, reimbursement, costs incurred by the department, or other remuneration pursuant to this subsection. Contractors entering into a contract with the department pursuant to this subsection are subject to the requirements and penalties of the confidentiality laws of this state regarding tax information. The director shall report annually to the Legislative Services Agency and the chairpersons and ranking members of the Ways and Means Committees on the amount of costs incurred and paid during the previous fiscal year pursuant to this subsection."

To comply with the reporting requirements, DOR submits a Tax Gap Compliance Program revenue and expenditure report to LSA and the Committees. The report includes background on the Tax Gap project and a summary of revenue and expenditures for each fiscal year. The Tax Gap report also includes a summary of amounts paid for services to create or administer systems or programs which identify non-filers of returns or non-payers of taxes administered by DOR. In addition, DOR reports a summary of total Tax Gap revenue collected by category, including corporation income, individual income, and sales/use tax.

Tax Gap revenue is collected by DOR as a result of identifying and billing non-compliant taxpayers and non-filers for taxes due. The individual income, corporation income, and sales and use tax audits identified by DOR Compliance Division staff as Tax Gap are loaded into certain computer programs in the AC and are tracked using specific billing codes established in the Tax Gap system. The Tax Gap Program Manager and Compliance Division Administrator are responsible for ensuring correct billing codes are used to record Tax Gap revenue.

We reviewed the Tax Gap Compliance Program revenue and expenditure reports submitted by DOR to LSA and the Committees for fiscal years 2000 through 2013. As of October 23, 2014, DOR had not yet submitted the Tax Gap Compliance Program revenue and expenditure report to the LSA and the Committees. According to a representative of DOR, the total estimated Tax Gap revenue for fiscal year 2014 is approximately $38.6 million. **Table 7** summarizes a total of approximately $288.9 million of Tax Gap revenue reported by DOR in the Tax Gap Compliance Program revenue and expenditure reports submitted each year to LSA and the Committees as of June 30, 2014, including the approximately $38.6 million estimated for fiscal year 2014.

Table 7

Tax Gap Revenue Reported by DOR

Fiscal Year	Individual Income Tax	Corporation Income Tax	Sales and Use Tax	Total
2000	$ -	85,053	46,526	131,579
2001	1,978,591	1,577,928	672,855	4,229,374
2002	6,607,819	7,898,388	645,195	15,151,402
2003	4,834,918	2,323,553	1,898,794	9,057,265
2004	6,179,615	2,019,060	2,486,689	10,685,364
2005	7,568,816	4,160,623	1,625,006	13,354,445
2006	7,337,994	7,579,323	1,945,040	16,862,357
2007	7,019,622	8,764,403	1,761,462	17,545,487
2008	14,338,619	6,953,847	1,624,811	22,917,277
2009	16,858,759	3,156,366	1,443,414	21,458,539
2010	18,222,744	5,196,865	2,458,568	25,878,177
2011	17,798,715	2,762,170	2,703,211	23,264,096
2012	26,372,701	5,848,567	3,904,406	36,125,674
2013	25,971,309	4,208,327	3,483,051	33,662,687
2014	31,094,523	2,696,146	4,797,000	38,587,669
Total	$ 192,194,745	65,230,619	31,496,028	288,911,392

The **Table** shows Tax Gap revenue reported increased dramatically since fiscal year 2000 as a result of increased emphasis by DOR in identifying non-filers of returns and non-payers of taxes. The average annual Tax Gap revenue is approximately $19.3 million from fiscal year 2001 through 2014. During fiscal year 2002, DOR hired 3 additional staff and accelerated several of the programs used to identify non-filers and non-payers. The majority of the revenue was the result of a program which helped identify under-reporters. As a result, DOR collected $15,151,402, an increase of $10,922,028 from fiscal year 2001.

Also as illustrated by the **Table**, approximately $9 million was collected in fiscal year 2003. According to a DOR official, collections were greater in fiscal year 2002 because collections are traditionally higher during the initial year of a program. Because programs can be applied to returns filed in prior years, the initial year of implementation has the greatest impact on collections.

The revenue amounts reported by DOR in the Tax Gap Compliance Program revenue and expenditure reports are based on the Compliance Division's Tax Gap Compliance Plan report which is created from information contained in the Tax Gap system. As summarized in **Table 7**, DOR reported approximately $288.9 million of Tax Gap revenue in the annual report submitted to LSA and the Committees and in the DOR annual reports during fiscal years 2000 through 2014, including the approximately $38.6 million estimated for fiscal year 2014.

While DOR complied with the reporting requirements contained in sections 421.17(23) and 422.75 of the *Code*, we were unable to reconcile the Tax Gap revenue amounts reported by DOR to LSA and the Committees to the State's accounting system for fiscal years 2008 through 2014. A total of approximately $131.9 million of Tax Gap revenue collected by DOR in fiscal years 2000 through 2014 is recorded in the Tax Gap Fund in the State's accounting system, which is approximately $157 million less than the $288.9 million total reported to LSA and the Committees by DOR.

According to DOR officials we spoke with regarding the reconciliation, because all Tax Gap revenue is comingled with other tax revenues in the State's General Fund, it is not possible to specifically identify and reconcile Tax Gap revenue recorded in the State's accounting system to the amounts reported to LSA and the Committees. In order to reconcile the reports and the State's accounting system, DOR staff use codes included in the Tax Gap system.

DOR staff code each transaction in the Tax Gap system with a specific code. Using these codes, DOR staff reconcile the amounts reported in the Tax Gap system to the amounts reported to LSA and the Committees and to the total amount recorded in the State's accounting system. However, there is no independent review performed by other DOR staff to verify the accuracy of the reconciliation and the Tax Gap revenue reported.

According to a representative of DOR, the Revenue Estimating Conference (REC) directed DOR to implement a change in accounting method for Tax Gap revenue beginning with fiscal year 2008. The representative of DOR stated the change was directed by the REC because the REC believes revenue collected as a result of Tax Gap should only be accounted for separately in the Tax Gap Fund until the estimated Tax Gap operating expenses for each fiscal year are covered. Further, the DOR representative stated once sufficient funds have been transferred to cover Tax Gap expenditures in each fiscal year, DOR ceases transferring Tax Gap collections and those collections remain in the State's General Fund, along with the other tax revenue collected by DOR in each fiscal year, rather than leaving large balances of Tax Gap revenue in the Tax Gap Fund.

While the change in accounting method explains the approximately $157 million difference, DOR was unable to provide support which demonstrates the $157 million difference is accurately recorded in the State's General Fund. Tax revenue is recorded by DOR in the State's accounting

system by tax type, such as corporation income, individual income, and sales and use taxes, but the amounts are comingled by DOR with all of the other tax revenue recorded by tax type in the State's General Fund.

DOR staff is able to reconcile the total revenue recorded in the Tax Gap Fund to the amounts recorded in the State's accounting system. DOR records Tax Gap revenue in the Tax Gap system application based on billing codes established within the application for individual income, corporation income, and sales and use taxes. When DOR identifies an individual or corporation which owes taxes to the State, it creates an account in the system and adds a code for the type of revenue to be collected. When revenue is received, it is posted to the specific account and deposited with other revenue to the State's General Fund.

Because DOR staff code each transaction in the Tax Gap system with a specific code, DOR staff are able to reconcile the amounts reported in the Tax Gap system to the amounts reported in the State's accounting system. However, there is no independent review performed by other DOR staff to verify the accuracy of the reconciliation and the Tax Gap revenue reported.

Because Tax Gap revenue is not specifically required to be reported by section 421.17(23) of the *Code*, DOR should maintain support showing how the amounts recorded in the Tax Gap system are reconciled to the State's General Fund. In addition, DOR should consider using coding in the State's General Fund to better track Tax Gap revenue.

As a result of reviewing and testing reporting for DOR, we determined revenue reported to LSA and the Committees and in the annual report of DOR can be reconciled to the State's accounting system. However, we are unable to verify this reconciliation because of the confidential nature of the system. It is important DOR periodically verify and reconcile Tax Gap revenue recorded in the Tax Gap system to the amounts recorded in the State's accounting system to help ensure accuracy and accountability for all tax revenue collected. Findings related to reporting for DOR are summarized in **Finding D**.

IPERS – Section 97B.4(4)(a) of the *Code* requires IPERS to submit an annual report to the Governor by December 31 of each year covering the administration and operation of IPERS during the preceding fiscal year, including recommendations for amendments to Chapter 97B of the *Code*. The report must include a balance sheet of the moneys in the retirement fund, information concerning the investment management expenses for the retirement fund, investment policies, and investment performance of the retirement fund.

The comprehensive annual financial report submitted by IPERS to the Governor each year is intended to provide complete and accurate information concerning the activities and results of the I-Que system operations within a single publication. In addition, IPERS reported the status of the I-Que project to the IPERS Investment Board for each fiscal year, including an overview, brief summary of work completed and status, funding, actual expenditures and a summary of expenditures by category.

We reviewed and tested available information and did not identify any significant findings related to reporting for IPERS.

Expenditures – Based on coding used by DOC, DAS, DOR, and IPERS in the State's accounting system, expenditure records of the departments, and verification by and discussions with representatives of those departments, we summarized total expenditures in fiscal years 2000 through 2014 for each system reviewed.

DOC - **Table 8** summarizes total ICON expenditures by fiscal year based on State accounting system coding which was verified by DOC.

Table 8

DOC Expenditures for ICON			
Fiscal Year	**ATG**	**Other**	**Total**
2000	$ 1,483,126	-	1,483,126
2001	1,388,716	-	1,388,716
2002	2,780,855	-	2,780,855
2003	2,787,070	353,087	3,140,157
2004	2,043,439	229,960	2,273,399
2005	1,313,900	106,105	1,420,005
2006	1,315,894	656,920	1,972,814
2007	1,990,126	60,427	2,050,553
2008	3,128,400	106,218	3,234,618
2009	2,334,530	71,456	2,405,986
2010	1,818,765	-	1,818,765
2011	1,865,174	60,026	1,925,200
2012	1,211,980	-	1,211,980
2013	1,502,296	5,064	1,507,360
2014	2,400,847	3,107	2,403,954
Total	$ 29,365,118	1,652,370	31,017,488

A detailed breakout by expenditure category of the $31 million is included in **Schedule 3**. As demonstrated by **Schedule 3**, approximately $27.4 million, or 88%, of the total was spent for professional and scientific services, outside services, and IT outside services. Also, approximately $2.7 million, or 9% of total ICON expenditures, was spent for IT equipment and software.

According to DOC staff, the total ICON expenditures during fiscal years 2000 through 2014 is approximately $31.6 million. We requested supporting documentation from DOC for the additional expenditures comprising the approximately $600,000 difference between the $31.6 million per DOC and the $31,017,488 summarized in **Table 8** as of June 30, 2014. DOC staff was unable to provide supporting documentation for the difference. Therefore, we were unable to verify if DOC's summary of ICON expenditures is accurate. As a result, the $600,000 is not included in the summary of expenditures by category in **Schedule 3**.

In addition, approximately $29.4 million, or 95% of the approximately $31 million spent for ICON, was paid to ATG. The total paid to ATG summarized in the **Table** does not include IT services DOC purchased from ATG in 1998 and 1999 for work on the initial ICON system modules.

According to DOC staff, ICON costs incurred prior to fiscal year 2000 were funded by general operating funds. However, DOC did not track ICON expenditures prior to fiscal year 2000. In addition, DOC did not track in-house costs incurred for ICON, such as payroll and travel, over the life of the ICON system. Therefore, the $31 million spent for ICON during fiscal years 2000 through 2014 is understated.

DAS - **Table 9** summarizes the total spent by DAS as recorded in the State's accounting system for fiscal years 2001 through 2014.

Table 9

DAS Payments for I/3	
Fiscal Year	**Amount**
2001*	$ 97,000
2002*	-
2003	2,940,764
2004	4,643,723
2005	4,316,785
2006	9,009,131
2007	4,514,679
2008	6,001,187
2009	4,884,373
2010	5,540,691
2011	5,276,926
2012	5,178,622
2013	5,642,478
2014	5,592,404
Total	$ 63,638,763

* - DAS did not consistently track expenditures during fiscal years 2001 and 2002.

DAS did not track and specifically account for I/3 system planning costs, such as personnel services and other relevant planning costs, in IFAS for fiscal years 2001 and 2002. However, the $97,000 paid by DAS to Deloitte and Touche for assistance with the ERP initiative in fiscal year 2001 is recorded in IFAS. The $63.6 million summarized in **Table 9** includes amounts spent by DAS for I/3 planning, development, implementation, consulting, hardware, software, maintenance, enhancements, staff salaries, and on-going operations. Of the $63.6 million, approximately:

- $19.9 million was paid to CGI,
- $18.1 million was for salaries and benefits of DAS employees responsible for I/3,
- $11.5 million was paid to the Information Technology Department or DAS-ITE for IT services,
- $9.3 million was used to purchase services and IT equipment from other IT contractors, such as IBM, Hewlett-Packard, Midland Systems Integration, and Sirius Computer Systems, and
- $4.8 million was paid for other I/3 operating costs.

A detailed breakout of amounts spent for I/3 by expenditure category is included in **Schedule 1**. Because DAS did not consistently track I/3 expenditures during fiscal years 2001 and 2002, total expenditures for I/3 included in **Table 9** are understated.

According to a DAS representatives we spoke with, former system management staff established budgets and considered funding and cost information during the early years of the system, but not all of the information was maintained and passed on to current system staff. Because

former staff did not maintain comprehensive documentation demonstrating consistent budgetary control over I/3 funds and did not pass on all budget information to current staff, it was difficult to assess the adequacy of budgeting, especially during the early years of I/3.

DOR - As allowed by section 421.17(23) of the *Code*, Tax Gap revenue used to fund operations and revenue in excess of what is needed for Tax Gap operations is recorded in the State's General Fund. **Table 10** summarizes the total Tax Gap expenditures recorded in the State's accounting system during fiscal years 2000 through 2014.

Table 10

DOR Expenditures for Tax Gap	
Fiscal Year	**Amount**
2000	$ 131,579
2001	4,229,374
2002	9,192,623
2003	3,116,328
2004	3,296,066
2005	3,480,864
2006	3,187,437
2007	3,391,568
2008	3,405,084
2009	3,440,393
2010	4,122,856
2011	4,905,033
2012	7,068,994
2013	7,279,492
2014	9,378,974
Total	$ 69,626,665

Schedule 4 provides a detailed breakout by category, such as IT equipment and software, IT outside services, outside services, and professional and scientific services, for each of the fiscal years shown in **Table 10**. As demonstrated by **Schedule 4**, DOR spent approximately $30 million for computer consulting services, computer hardware and software, and system maintenance and enhancements for Tax Gap as of June 30, 2014, which is 43% of the $69.6 million total spent. Approximately $36 million (52%) of the total has been spent on DOR personnel services. The remaining $3.7 million (5%) was spent on various other operational costs of Tax Gap.

As previously stated, DOR established the Tax Gap system to identify non-filers of tax returns or non-payers of taxes administered by DOR. The Compliance Division is primarily responsible for administration of Tax Gap operations and related contracts. During fiscal year 2014, DOR assigned approximately 74 full-time equivalent employees (FTEs) to work with Tax Gap. **Table 11** summarizes the total FTEs which worked on Tax Gap, personnel services expenditures and cost per FTE from July 1, 2001 through June 30, 2014.

Table 11

Personnel Data for Tax Gap			
Fiscal Year	**Total FTEs**	**Personnel Services**	**Cost per FTE**
2000*	-	$ -	-
2001*	-	-	-
2002	12.17	700,838	57,587
2003	19.72	1,284,849	65,155
2004	24.14	1,614,383	66,876
2005	26.88	1,887,692	70,227
2006	26.96	1,908,850	70,803
2007	29.57	2,117,384	71,606
2008	26.97	2,077,871	77,044
2009	26.80	2,133,512	79,609
2010	38.39	2,923,772	76,160
2011	43.81	3,394,870	77,491
2012	60.19	4,851,062	80,596
2013	59.15	4,969,156	80,009
2014	73.63	6,107,321	82,946
Total		$35,971,560	

* - The original legislation did not allow funding to be used for personnel services prior to fiscal year 2002.

As previously stated, Tax Gap expenditures were not specifically tracked prior to fiscal year 2000. Because DOR did not track all Tax Gap expenditures prior to fiscal year 2000 and personnel services expenditures in fiscal years 2000 and 2001, the $36 million total in **Table 11** and the $69.6 million total in **Table 10** and **Schedule 4** are understated.

IPERS – As previously stated, IPERS estimated the I-Que project budget at approximately $34.8 million. As of June 30, 2014, IPERS has spent $34.2 million for I-Que, as summarized in **Table 12**.

Table 12

IPERS Payments for I-Que	
Fiscal Year	**Amount**
2006	$ 1,307,753
2007	5,983,410
2008	4,534,085
2009	5,221,591
2010	4,810,883
2011	5,087,258
2012	2,602,274
2013	1,215,880
2014	3,461,616
Total	$ 34,224,750

As is typical for any IT system, ongoing system maintenance and enhancement activities are necessary. Additional costs for future maintenance and enhancement of the system are not included in project costs summarized in **Table 12**. As provided by the agreement with Vitech, IPERS purchased 5,000 hours of IT consulting for $800,000 to be used for I-Que enhancements at any time up until December 31, 2016. IPERS anticipates the only additional on-going costs to be incurred for I-Que through fiscal year 2015 will be payments to Vitech under the I-Que maintenance and support contract. The total additional maximum cost agreed to by IPERS with Vitech from July 1, 2012 through June 30, 2015 is $2,890,000, consisting of:

- $1,305,000 for upgrade subscription fees,
- $505,000 for support and maintenance services, and
- $1,080,000 to purchase an additional 6,000 hours for enhancements.

The IT consulting hours for enhancements may also be used any time up until December 31, 2016 and the combined total cost of agreements for maintenance, support, upgrades, and enhancements to the I-Que system is $3,690,000. After IPERS accepts the I-Que system as complete, the warranty period is closed and the maintenance period begins. The costs of maintenance, upgrades, and enhancements will be tracked separately by IPERS.

Schedule 5 provides a detailed breakout of the approximately $34.2 million total spent for I-Que in fiscal years 2006 through 2014 by category, such as personnel services, professional and scientific services, IT outside services, and IT equipment and software. As demonstrated by the **Schedule**, $26 million, or 76% of total actual costs, were for professional and scientific services, outside services, and IT outside services. In addition, $4.7 million, or 14%, was spent for IT equipment and software, $2.6 million, or 7%, was spent for personnel services and $0.9 million, or 3%, was spent for other project costs, such as communication, office equipment, and supplies.

Other Areas – As a result of the procedures performed, we also identified other areas, including ownership of the software, compliance with the *Code of Iowa*, and possible employee/employer relationships. Each of these items is discussed in the following paragraphs.

Ownership, Licensing, and Rights to Information - When the State enters into a software agreement where the State will not own the rights to the software, it is possible the State will become dependent on the contractor. By not owning the software, the State will be reliant on the contractor for all support and may, depending on the complexity of the system, find it cost prohibitive to switch contractors because of the proprietary nature of the software. The Federal Acquisition Regulation (FAR) provides 3 options for intellectual property rights, depending on whether the government pays for all, a portion, or none of the development costs, as follows:

- Government purpose rights – right to use, modify, reproduce, release, perform, display, or disclose intellectual property within the government without restrictions and outside government, for noncommercial purposes for a negotiated period of time.
- Restricted rights – right to use, modify, reproduce, release, perform, display, or disclose intellectual property within the government.
- Unlimited rights - right to use, modify, reproduce, release, perform, display, or disclose intellectual property in whole or in part, in any manner, and for any purpose and to have the authorization to do so.

DOC – The ICON system is critical to the mission of DOC. The ICON system software had not been developed by ATG prior to Iowa contracting with ATG. According to a representative of ATG, Iowa is the founding customer of ICON. However, according to DOC staff we spoke with, ATG, not DOC, has ownership of the ICON system. As mentioned previously, DOC did not sufficiently pursue the opportunity during the initial years of the working relationship with ATG to establish an ownership clause in the contract which may have allowed DOC ownership or joint ownership of the ICON system.

According to representatives of DOC, DOC is addressing the ownership issue, as needed, with the Attorney General's Office in response to the previously issued "Review of Statewide Procurement" report. In addition, the DOC representatives mentioned DOC continues to keep DAS updated on progress with the Attorney General's Office and will collaborate and implement necessary deliverables with DAS as part of the process.

DOC does not have a copy of the source code for the ICON system modules. However, according to DOC staff we spoke with, ATG placed a copy of the ICON source code in escrow with a mutually acceptable escrow agent and the code is accessible by DOC from the intellectual property management company in the event ATG is no longer able to fulfill its contractual obligations. Effective April 3, 2013, the escrow agent notified DOC the escrow account setup was complete.

It is essential DOC establish a specific detailed contract for all future software, IT equipment, and services desired prior to allowing the contractor to proceed with work on a project to establish a base for effective monitoring of progress, controlling costs, and establishing ownership.

Findings related to ownership, licensing, and rights to information are summarized in **Finding E**.

DOR - We reviewed and compared the ownership, licensing, and rights to information clauses contained in the original Tax Gap RFP, the Teradata response to the RFP, and the initial contract entered into by DOR with Teradata. The intent of the RFP related to the initial Tax Gap contract agreed to with Teradata in November 1999 was to provide ownership rights to DOR of the software and all items developed under the contract. According to the RFP, the State was to maintain ownership rights to the software and all items developed for Tax Gap. In addition, the RFP mentions all work and materials under the Tax Gap contract would be the sole and exclusive property of the State and all such material and all copies are deemed "works made for hire" of which the State is deemed the author.

However, Teradata proposed revised and additional ownership, licensing, and rights to information clauses which were submitted to and agreed to by DOR. Teradata also stated in its response to the RFP software and deliverables would in no circumstances be considered works for hire, which is contrary to what the State initially intended regarding ownership, as stated in the RFP.

DOR selected Teradata as the service provider for the initial Tax Gap contract and entered into a contract with Teradata which allows the State ownership of all works made for hire. However, under the initial Tax Gap contract, Teradata received a perpetual, worldwide, non-exclusive, royalty-free right and license to use, display, modify, reproduce, create derivative works, distribute and resell, in source code or object code format, any and all works made for hire. To the extent materials are not deemed works made for hire under the contract, DOR has a perpetual, non-transferrable, non-exclusive license to use software and deliverables under the contract. Teradata retained all rights to ownership of the Case Management System software, including, but not limited to, the source code.

In addition, the initial Tax Gap contract does not allow DOR or the State to share in the profits of any sale of the works made for hire, work product, or any deliverables. Further, neither DOR nor the State has any rights of accounting or claim against the proceeds of the sale of the AC application, including any variations or derivatives provided to DOR under the contracts, or any subsequent support payments. As a result, DOR lost the opportunity to own or share in ownership of the entire Tax Gap system, including the AC application and money obtained by the contractor from sales of the system.

Findings related to ownership, licensing and rights to information are summarized in **Finding E**.

***Code* Section 68B.7** – Section 68B.7 of the *Code* includes a 2 year ban on receiving compensation for any services rendered while representing the contractor and working on a project in which the person was directly involved while employed by the State. During the 1992 legislative session, section 68B.7 of the *Code* was revised to include everyone who served as an official, state employee of a State agency, member of the Legislature, or a legislative employee.

We identified former DOR employees who work or worked for Teradata, the primary contractor for Tax Gap, within the 2 year ban period, as follows:

- The former DOR Director started working for Teradata within 1 year of leaving employment with DOR. Specifically, the former DOR Director:
  - Approved the initial Tax Gap contract on November 5, 1999.
  - Retired from DOR employment under the Early Out Incentive Program on February 1, 2002.
  - Was rehired by DOR as a temporary State employee to perform the duties of Director and Chief Operating Officer of the Department during fiscal years 2002 and 2003, as reported previously in our audit report regarding a "Review of Early Out Incentive Programs" which was issued on July 13, 2007. The former DOR Director worked 1,901 hours at a total cost of $90,118 as the Director from February 15, 2002 through July 19, 2002 and as Chief Operating Officer from July 19, 2002 through December 5, 2002. Total Early Out Incentive Program payouts of $149,471 were made during fiscal years 2002 through 2006 to the former DOR Director.
  - The former DOR Director was subsequently employed by Teradata as a consultant. The specific start date with Teradata is not known. However, we determined the former DOR Director was employed as a Teradata consultant during calendar years 2003 through 2008, as disclosed in personal financial disclosure statements submitted to the Iowa Ethics and Campaign Disclosure Board. In addition, according to DOR representatives we spoke with, the former DOR Director worked for Teradata on Tax Gap under the contract entered into with DOR.
- The former DOR Tax Gap compliance project manager also started working for Teradata within 1 year of leaving employment with DOR.

  The former DOR Tax Gap compliance project manager left employment with DOR on July 22, 2005 and was employed by Teradata as an account executive by July 10, 2006. The former Tax Gap compliance project manager is listed as a member of the Teradata team in the response to the RFP documents dated July 10, 2006, as related to the Tax Gap contract for AC application maintenance and enhancement services entered into by DOR with Teradata, using The Sartell Group as subcontractor.

  According to DOR staff, the employee was hired by Teradata for a project in Australia and has not worked on the Tax Gap project.

As a result of reviewing and testing compliance with section 68B.7 of the *Code*, we determined DOR is not in compliance with section 68B.7 of the *Code* for the 2 former DOR employees. Findings related to non-compliance with section 68B.7 of the *Code* are summarized in **Finding F**.

DOR Employer/Employee Relationship – The State Accounting Enterprise (SAE) of DAS has established pre-contracting procedures which must be followed by State departments when contracting for services. For example, after a contractor has been selected and prior to signing the contract, a determination must be made by State departments seeking to contract for

services as to whether the contractor has an employer/employee relationship with the State. The determination is required to be documented by the State departments in combination with the pre-contract questionnaire process summarized in the SAE services contracting procedures.

Both DOR and DAS make this determination and document the results on the Pre-Contract Questionnaire signed by the DOR Director or designee and a DAS official. We identified the appearance an employer/employee relationship for 2 individuals working for DOR as EDW DBAs on Tax Gap over a 10-year period. According to DOR staff we spoke with, the 2 EDW DBAs were the only database administrators used by DOR for Tax Gap since inception. In addition, the 2 EDW DBAs work alongside other DOR Tax Gap employees and submit weekly or bi-weekly timesheets or activity reports, including hours worked and a description of work performed, to DOR Tax Gap personnel for review and approval and work under the guidance of Tax Gap personnel. The circumstances and the number of hours worked for the computer consultants give the appearance of an employer/employee relationship.

As stated previously and as summarized in **Table 4**, an EDW DBA was used by DOR under the initial Tax Gap contract with Teradata and the Teradata DBA contract. From December 16, 2002 through June 30, 2012, a total of approximately $2.7 million was billed by Teradata to DOR for the EDW DBA services. The other EDW DBA was used by DOR under the initial Tax Gap contract, the State's Merit Resources contract and subsequently under the long-term contract agreed to by DOR with Quest Solutions. From December 16, 2002 through June 30, 2014, a combined total of approximately $2 million was paid by DOR to Teradata, Merit Resources and Quest Solutions for services of the EDW DBA. In addition, DOR continues using the services of the EDW DBA under a contract with Quest Solutions, potentially through June 30, 2017.

State agencies may hire temporary staff under a contract with Merit Resources. Under the contract, an employee can work for a Department up to 780 hours. DAS allows a department to request a waiver to allow an employee hired under the contract to work for a total of 18 months. The requirement to use Merit Resources does not apply to contractor agreements. The contracts with Teradata and Quest Solutions are considered contractor contracts and, as such, the limit on hours does not apply.

The circumstances and number of hours worked for the computer consultants give the appearance of an employer/employee relationship. Documentation of assessment of the potential employer/employee relationship was not available when contract documentation was requested from DOR, except for the July 1, 2011 Pre-Contract Questionnaire for staff augmentation services provided by the consultant under the Quest Solutions contract. DOR should have considered and evaluated the possibility of directly hiring additional IT staff as State employees since Tax Gap has extended over several fiscal years and is an on-going program of DOR.

As a result of reviewing and testing employer/employee relationship concerns, we identified potential employer/employee relationships exist for the 2 DBA consultants who worked on Tax Gap for DOR. Findings related to DOR employer/employee relationships are summarized in **Finding G**.

Findings and Recommendations

We reviewed the computer systems operated by DOC, DAS, DOR, and IPERS to determine whether the Departments appropriately planned and monitored their projects. We also determined whether the Departments' revenue and expenditures for the computer systems were reasonable and appropriate and complied with relevant requirements of the *Code of Iowa* and DAS Administrative Rules and procedures. As a result, we identified certain findings and recommendations regarding the computer systems which should be considered by the Governor, Members of the General Assembly, DOC, DAS, DOR, and IPERS.

FINDING A – Planning

The implementation of a computer system requires comprehensive planning. The plan should include items such as: user requirements, resources needed and available, project budgets, cost estimates, system software development plans, hardware requirements, milestones, performance measures, staffing and staff responsibilities, including, but not limited to, system development, monitoring, and reporting. Supporting documentation should be maintained for significant decisions regarding any aspect of a project in accordance with the record retention requirements contained in section ADM 07-09.G of the Record Commission's State of Iowa Records Management Manual. We reviewed available planning information maintained by the agencies for the computer systems and identified findings for DOC and DAS, as follows.

DOC - DOC was unable to provide a comprehensive plan for developing the ICON system and for selecting contractors. DOC has developed a list of pending projects it would like to implement over the next few years. However, there is no timeline included in the list provided to us. According to DOC staff, the projects are dependent on the funding received each year.

DAS - When we requested planning information, DAS provided limited examples of the planning completed during the early years of the project. Some of the information provided includes summaries of project meetings, presentations to the Government Oversight Committee of the Legislature and system implementation strategies prepared by CGI. However, comprehensive planning information prior to fiscal year 2005, such as background, correspondence and decision-making documentation, was not available when requested. According to DAS representatives we spoke with, former staff did not pass on all the planning documentation to the current staff.

Current staff provided several examples of comprehensive current detailed planning for I/3 and a list of upgrades and enhancements since fiscal year 2005. Although some of the planning documentation prior to fiscal year 2005 was not available, current staff maintains sufficient information to plan I/3 system upgrades and enhancements.

Recommendation - For the development of future systems, DOC and DAS should consider the following:

DOC – The Department should develop a detailed, comprehensive software development plan, including items such as timelines, milestones, performance measures, monitoring responsibilities, and reporting responsibilities to better plan and measure progress of work completed to date.

DOC and DAS – The Departments should maintain all significant documentation related to ICON and I/3 system planning and monitoring, including, but not limited to, background, correspondence, a strategic plan, service contract considerations, problems encountered, and significant decisions made regarding the ICON and I/3 systems, including, but not limited to, upgrades, significant enhancements and future similar projects.

Response -

DOC – The Department's overall plan since the late 1990's was to replace the Adult Corrections Data System and automate daily activities of staff in relation to administration, offender services and security population management. Most importantly the plan was to provide a seamless automated system between the prisons and community-based correction districts, other state agencies (e.g.; public safety, federal and municipal communities).

Due to annualized and limited appropriations, the Department progressed through the automation based on the level of funding available. Furthermore, a comprehensive plan was not developed, as the level of funding was unable to plan beyond a given fiscal year. In lieu of a comprehensive plan, the Department established a Scope Planning Process (SPP) for each significant project and change modification based on funding available. The process begins with user input, and eventual development of scope documents as a result of the information gathering, definition, planning, analysis, design business and technical specifications, verification, testing, quality assurance and production roll-out (implementation) of deliverables into the ICON system.

The SPP is the needs analysis component that occurs to identify the overall focus of the project and leverages Subject Matter Experts (system user experts) to discuss business practices. Information gathering and definition is critical to project success. Without SME's and the process to successfully collaborate to develop eventual business and technical specifications, the project would incur rework, project development cost increases and ultimately a product that cannot move to production. Project specifications (business and technical) are detailed and describe the most common approach for developing a module/project. Scope Planning Process is only done for large projects (i.e.; approximately three per year).

A scope document is then completed by ATG, along with an initial cost of the project (i.e.; change order). When the scope/change order is submitted back to the Department, a verification process is conducted. The verification process formalizes acceptance of the project scope by the stakeholders (system user experts) and the change order by the ICO Administrator. Verification includes an analysis of the change order as to the number of hours being projected while assuring scope items are included in the change order. If analysis warrants further discussion with ATG, such is done and a modified change order is completed.

Until a scope document is completed, the ability to budget in advance is nearly impossible. The process described previously includes an ongoing monitoring of ICON funds, which determine if the project moves forward or is placed on hold. If funding is available, ATG proceeds with the project per the direction of the ICON Administrator.

When programming is completed, per the scope document, system changes are migrated to the ICON Test Site and again a verification process ensues whereby the user group(s) convenes and a thorough testing of the system changes occur. This qualify assurance can result in changes in the test environment, due to user group(s) and ATG working through the test environment prior to production roll-out/ implementation, When a change occurs, the Scope Change Process begins with ATG submitting a change order that addresses the omissions or changes to a module and the review process begins again. The Scope Change Control Process manages an error or omission in defining the scope of the project, such as changes in a governmental regulation and/or a value-added change.

The Department has continuously updated a priority list of future projects to help achieve the goal of automating daily activities of staff in relation to administration, offender services and security population management. As previously mentioned, it is nearly impossible to determine the cost of the future projects because user groups, scope documents, etc. have not been completed, which provides a cost for the proposed system changes.

The Department will develop a detailed comprehensive software development plan for any future systems. In addition, the Department will maintain all significant documentation regarding the ICON system.

DAS – Over the past years, I/3 has moved from a project to an established system. DAS will maintain detailed documentation on new projects and major changes related to I/3.

Conclusion -

DOC – Response accepted.

DAS – Response accepted.

FINDING B – Budgeting and Funding

As part of an overall project plan, a detailed line item budget should be developed and used from the start of the development of a system through completion. The budget should periodically be compared to actual costs incurred to monitor and identify cost over-runs or items which may need adjustment. The budget should track all sources of funding, including State appropriations, federal funds, and revenue generated by the system. Budgeted funding should periodically be compared to actual funding to facilitate decision-making by Department management, the Legislature and the Governor regarding funding needs and requests for future funding. We reviewed available budgeting and funding information maintained by the Departments for the computer systems and identified findings for DOC, DAS, and DOR, as follows:

DOC - DOC was unable to provide a comprehensive budget which was used to compare budgeted to actual costs and control costs for the ICON system. According to DOC staff we spoke with, DOC planned and budgeted for ICON on a yearly basis depending on system needs and available funding.

DAS - DAS was unable to provide a comprehensive budget which compared budgeted to actual expenditures for the purpose of controlling costs over the life of I/3. DAS representatives we spoke with stated DAS planned and budgeted for I/3 yearly based on system needs and available funding. DAS representatives also stated, while a cumulative all-inclusive budget to actual expenditure comparison was not available, they are able to summarize the information based on the financial records for each fiscal year. As previously stated, staff involved in the initial planning did not maintain or transfer records to current staff working on I/3.

Using the I/3 system and information available from historical files, we obtained funding and expenditure information for the period July 1, 2000 through June 30, 2014. We provided the information to a DAS representative who verified DAS received approximately $68.3 million in funding from fiscal year 2003 through 2014 for I/3. As of June 30, 2014, DAS has expended approximately $63.6 million for planning, development, implementation, upgrades, enhancements, maintenance, and on-going operations of I/3.

DOR – DOR staff was unable to provide an estimated total cost for Tax Gap, a cumulative total Tax Gap budget and a comparison of cumulative total actual to budgeted line item revenue and expenditure amounts since inception when requested. The budgeted and actual line item expenditures for a project of this size should include planning, development, implementation, in-house resources, software, hardware and on-going costs, such as software maintenance, enhancements, upgrades, and server administration costs, over the life of the project. DOR financial personnel track and maintain a detailed line item Tax Gap budget, including comparisons to actual revenue and expenditures for individual fiscal years. While DOR had the

ability to summarize Tax Gap revenue and expenditures over the life of the project based on budget documentation maintained for individual fiscal years, DOR did not have readily available information demonstrating tracking and controlling of cumulative total Tax Gap expenditures over the life of the project when requested.

Sufficient internal control over budgets and expenditures require a cumulative line item budget be established and periodically monitored to help plan funding and maintain cost control over projects of this size. In addition, as part of an overall project plan, it is important a detailed line item budget be developed and used from the start of a project through completion. Without sufficient budgetary controls in place, costs of the computer systems may exceed necessary and reasonable costs, which could result in inefficient or inappropriate use of taxpayers' money.

Recommendation – DOC, DAS and DOR should establish:

- A total budget from inception through anticipated completion for all major projects. The budget should consider the possibility of subsequent enhancements, upgrades, maintenance, and operations. The project budget should be broken down between planning, development, implementation, maintenance, software, hardware, personnel, contracting, upgrades, database and server administration, and on-going system costs over the life of the computer systems.

- Procedures to review the budget monthly and at the end of each fiscal year to better monitor and control costs. The reviews should be provided to the Department Director in addition to project management. Budgeted revenues and expenditures should periodically be compared to actual revenue collected and expenses to monitor and identify if funding is sufficient, identify significant cost over-runs, and if the budget or project may need to be modified in cases where funding is insufficient.

Response -

DOC – The Department is no longer in the development process for the ICON system. The Department is maintaining and enhancing the ICON system. Due to annualized and limited appropriations, the Department developed the ICON system based on the level of funding available. The Department did have an annual budget; however, a comprehensive plan was not developed, as the level of funding was unable to plan beyond a given fiscal year.

The Department will develop a comprehensive budget from inception through anticipated completion for all future programs. The comprehensive budget will be reviewed throughout the development process of all future programs.

DAS – From the beginning of the I/3 implementation project in F2002, detailed budget and financial information was maintained and updated through the end of the project in FY2005. In FY2005, I/3 moved from a project to an established system. Line item budgets are developed each budget fiscal year and reviewed within DAS monthly. In addition, I/3 Utility Fees are established and presented to the DAS Customer Council two years in advance of the rate implementation. These documents include explanations of anticipated projects and major tasks that will be undertaken to maintain or enhance the system.

DOR – The Department agrees that budgets for major projects need to be developed to anticipate not only implementation costs and benefits, but also ongoing system costs over the life cycle of the hardware and software. In late 2011, the Department introduced additional tracking to its IT operations to better understand the life cycle costs of our technology. The Department continues to refine and improve those processes and has partnered with the Office of the Chief Information Officer (OCIO) to further improve hardware and software management. Support

from OCIO assists the Department in planning, budgeting and implementing hardware and software upgrades. This support improves internal project control and reduces the likelihood of unexpected costs.

The Department further agrees that review and analysis of all revenues and expenditures generated through the operating budget should be completed monthly. The Department enhanced its budgeting oversight and accountability processes so that monthly reports comparing the budget with actual revenues and expenditures are available to leadership. The Department respectfully disagrees that its overall budgeting practices do not meet the standards set forth in this finding. The Department maintains and has maintained an annual budget of expenditures and collections since the inception of the Tax Gap Program. The Department does not retain a cumulative running total in each category of expenditures of the Tax Gap Program since inception, but rather maintains the financial records in accordance with State accounting procedures applicable to the Department. It is important to note that the Tax Gap "Program" is an operational unit of the Department that includes the Teradata IT solution. The comments and recommendations above seem to indicate that miscommunication regarding the Tax Gap Program structure and processes has occurred. We regret any confusion that may have arisen from the information provided by the Department.

The Tax Gap Program has been successfully meeting its goals for over 16 years. The Department is committed to continuing to achieve those goals at the lowest possible cost to taxpayers. Since inception of the Tax Gap Program, nearly $270 million in revenue has been generated for a cost of less than $70 million.

Conclusion -

DOC – Response accepted.

DAS – Response acknowledged. While DAS maintains and uses detailed budget and financial information for I/3 administration for each fiscal year, DAS did not provide a comprehensive budget covering the project from inception to implementation. It is important a detailed cumulative line item budget be developed and used from the start of a project through completion to enhance budgetary control over the life of a project.

DOR – Response accepted.

FINDING C – Contracting and Monitoring

As part of a good contract management system, all Departments are expected to monitor activity and payments related to contracts and related statements of work, purchase orders or other similar documents which list the goods and services to be procured to ensure what was purchased is received and appropriate. We reviewed available contracting and monitoring information maintained by DOC, DAS, DOR, and IPERS for the computer systems for compliance with relevant laws, Administrative Rules and good business practices. As a result of reviewing and testing contracting and monitoring for DOC, DAS, DOR, and IPERS, we identified findings, as follows.

DOC – For the ICON system, DOC did not:

- Maintain documentation showing why a bid process was not used to select the primary contractor. Rather, DOC provided a summary letter explaining why DOC chose ATG as the primary contractor after being asked for information as to why the contractor was selected.

- Have a comprehensive service contract with ATG for the development and implementation of the ICON system from 1998 through September 22, 2010. During this period, DOC paid ATG more than $22 million. As a result, DOC was not in compliance with the State's services contracting laws and DAS policies and procedures in effect, and as revised, during this period. Because DOC did not have a service contract with ATG, there was no formal basis to effectively monitor ATG's completion of services and provision of software and equipment for ICON.

DAS – Findings identified for I/3 contracting and monitoring are as follows:

- Change orders - Former DAS staff responsible for administration of the I/3 system agreed to 30 change orders with CGI for I/3 system development and implementation under the CGI contract during fiscal years 2003 through 2008 and extended the contract multiple times over the life of the I/3 system. As a result, the initial CGI contract amount agreed to was increased by $4,209,625, or 45%. Most of the change orders agreed to by DAS with CGI were approved after the effective date of the change order. As a result, DAS was not in compliance with the State's services contracting laws and DAS policies and procedures in effect, and as revised, during this period. In addition, contract change order summaries completed by DAS during fiscal years 2003 and 2004 did not consistently include a sufficient summary of costs to be incurred for additional goods and services agreed to.

- Expenditure monitoring - Invoices submitted by CGI to DAS during fiscal years 2003 through 2005 seeking payment for work completed under the I/3 system contract typically did not include sufficient detail necessary for effective monitoring of whether the State received what was agreed to under the contract and what it paid for. Subsequent to June 30, 2005, invoices submitted to DAS by CGI typically included sufficient detail to allow adequate monitoring by DAS.

- System usage - Departments are not currently using the inventory and contractor self-service modules which were developed under the CGI contract. In addition, while 24 Departments are currently using the fixed asset module of the I/3 system, several Departments are not. DAS is unable to provide a breakdown of costs associated with development of the inventory and contractor self-service modules.

- Human Resource Module (HRM) - DAS decided to ensure the financial component of I/3 was in place prior to focusing on implementation of another significant component, such as HRM. Because HRM was not successfully completed under the CGI contract and was put on hold by DAS, Departments must continue using the outdated HRIS and centralized payroll systems for human resources and payroll needs. DAS HRE and SAE staff continue planning and improving, as possible, current HRIS and centralized payroll software to better meet the needs of users.

DOR - Concerns regarding long-term contractual relationships established by DOR with Teradata, using The Sartell Group as subcontractor, and Quest Solutions, are as follows.

- Impact of multiple contract changes - Because Teradata was selected by DOR to provide on-going Tax Gap services by entering into the initial Tax Gap contract, maintenance contract, Teradata database administration contracts, Teradata 560 contract and a potential application enhancement contract, Teradata may have too much impact on the contract cost. Long-term service providers could take advantage of the situation because they believe they are apparently the only service provider available or are best available to meet the Tax Gap system needs and may increase the cost.

- On-going reliance of DOR on contractors and increased contracting costs - The intent of the initial $13 million Tax Gap contract agreed to by DOR with Teradata in November 1999 was for Tax Gap system work to be completed and placed in operation no later than

December 2006. DOR chose to continue its contractual relationship with Teradata for Tax Gap services beyond December 2006 by agreeing to multiple extensions of contract expiration dates, addendums, SOWs, amendments and agreements, including use of The Sartell Group as subcontractor for Case Management application maintenance and enhancement services, potentially through March 2019 if all options to renew are agreed to by DOR. As of June 30, 2014, the total combined amount agreed to by DOR with Teradata for all Tax Gap agreements is approximately $23.8 million, an increase of approximately $10.8 million, or 83%. As a result, DOR continues to rely on Teradata for Tax Gap system services.

In addition, DOR established an on-going contractual relationship with Quest Solutions for data warehouse DBA services and DOR may continue using Quest Solutions for DBA services at least through June 30, 2017 if all options to renew the contract are agreed to by DOR. From December 16, 2002 through June 30, 2014, DOR paid more than $2 million to Teradata, Merit Resources, and Quest Solutions, Inc. for on-going data warehouse services performed by the same consultant used by DOR over more than a 10-year period.

- Excessive hourly rates and amounts paid under the contracts – Approximately $2.7 million of the approximately $23.8 million total agreed to by DOR with Teradata over a 10-year period is for DBA services. DBA services were provided to DOR under the initial Tax Gap contract and the subsequent separate Teradata DBA contract and the contract expiration date was extended multiple times to continue DBA services from December 2002 through June 30, 2012.

  Hourly rates ranging from $150 to $170 in December 2002 through June 2006 agreed to by DOR with Teradata under the initial Teradata contract and the Teradata DBA contract seem excessive. In addition, the initial hourly rate of $118 agreed to by DOR for the Teradata DBA contract is $33 per hour higher than the $85 preferred hourly rate stated by DOR in its May 2006 Request for Proposal for DBA services. The highest hourly rate billed by Teradata for DBA services was $170 from December 2003 to June 2005. The $170 hourly rate is twice as much as the preferred $85 hourly rate included by DOR in the May 2006 Request for proposal for DBA services for similar services. Also, the highest hourly rate billed to DOR by Teradata under the initial Tax Gap contract is $186 per hour, which was for services of a business analyst. In addition, the highest hourly rate paid by DOR for services of the Quest Solutions consultant providing DBA services to DOR for more than 10 years is $165, which was billed by Teradata for services provided in December 2002 through December 2003 under the initial Tax Gap contract.

  If DOR had hired 2 State employees to perform DBA services for Tax Gap rather than contracting, the State would have saved an estimated $1.9 million before benefits ($1.4 million under the Teradata contract and $.5 million under the DBA contracts).

- Lack of knowledge transfer – DOR did not ensure sufficient knowledge transfer was performed by Teradata as agreed to under the initial Tax Gap contract. Rather, DOR chose to continue its contractual relationship with Teradata beyond December 2006 by agreeing to additional Tax Gap contracts and multiple extensions, addendums, and amendments to extend the expiration dates of the contracts and increase the contract amounts.

- Non-compliance with the advertising clause of the initial contract - The initial contract with Teradata includes an advertising clause which prohibits Teradata from creating commercial advertising which states or implies Teradata is endorsed by DOR or the State. We identified examples of potential violations of the advertising clause of the

initial Tax Gap contract DOR entered into with Teradata, including direct quotes of former DOR employees in Teradata promotional documents. In addition, DOR did not perform sufficient monitoring to ensure Teradata's compliance with the advertising clause of the initial Tax Gap contract.

IPERS - IPERS did not consistently comply with DAS procedures requiring service contracts be signed prior to work being started. We identified 4 instances where the contract was signed between 20 and 63 days after the effective date of the contract. We also identified 5 instances where the date the amendment was signed was not included. As a result, we could not determine if the amendments were signed prior to the effective date as required by the services contracting procedures contained in section IV. (9) of DAS-SAE Procedure 240.102.

Recommendation -

DOC – DOC should consistently comply with all laws, Administrative Rules and procedures regarding services contracting with ATG and future contractors, such as:

- Use a competitive process to ensure the best value is received for the provision of desired services and establish a fixed maximum contract cost from the outset.
- Ensure service contracts are executed for all services agreed to as required by DAS Administrative Rules and include all required service contract clauses.
- Ensure all deliverables agreed to under contracts are sufficiently completed and limit the amount of changes made to the initial contract to better control costs and timeliness of services completed.
- Document decisions made while considering and selecting contractors for contracts for provision of services and/or goods and maintain relevant documentation to clearly demonstrate how and why each contractor was selected for each contract and whether a competitive process was used.
- Document and maintain all significant documentation, such as bids submitted and evaluation of bid results. If a competitive process was not used, include documentation in the contract file to explain why not and how the contractor was selected, including applicable laws, Administrative Rules, procedures, and required additional documentation.
- Establish a payment clause, monitoring clause, and review clause in a detailed contract, including all services, software, and equipment purchased from ATG.
- Include contract maximums and maximum hourly rates which may be billed by contractors, as appropriate, in future service contracts.
- Maintain a copy of all contracts and related documents, such as addendums, amendments, statements of work, and related DAS master agreements.
- Maintain evidence of monitoring and evaluation of goods and services received.
- Maintain reports completed by contractors when reporting is required by contracts.

Also, DOC should consistently document and maintain ICON system monitoring procedures completed to ensure effective continuity of system operations in addition to ensuring sufficient completion of ICON system modules agreed to under the service contract which was recently established. In addition, for the development of any new ICON modules and future similar system projects, DOC should ensure an escrow agreement is established early on and DOC should maintain documentation demonstrating the details, including, but not limited to, how and where the source code may be obtained in the event ATG is no longer fulfilling its contractual obligations.

DAS – DAS should consistently comply with all laws, Administrative Rules and procedures regarding services contracting for the I/3 system and future similar projects and improve contract management procedures, such as:

- Ensure all deliverables agreed to under contracts are sufficiently completed and limit the amount of changes made to the contract to better control costs and the timeliness of services completed.
- Ensure all contract documents, such as change orders, are approved prior to any service being performed.
- Consistently hold contractors accountable for all goods and services agreed to under the contract. If work completed under a contract is not sufficient, DAS should ensure the contractor either sufficiently corrects all deficiencies identified or require the contractor to remit or credit sufficient value to compensate the State for lack of performance under the contract.

In addition, DAS should consistently perform and maintain documentation of I/3 system monitoring procedures completed to ensure effective continuity of I/3 system operations in addition to ensuring sufficient completion of all I/3 system modules, upgrades, enhancements, and other services agreed to under the contracts and for agreements for future similar projects.

DOR – DOR should consistently comply with all laws, Administrative Rules, and procedures regarding services contracting for Tax Gap and future similar projects and improve contract management procedures, such as:

- Develop and implement policies and procedures to ensure future contracts are adequately planned and monitored to ensure costs are necessary and reasonable.
- Limit the amount of changes made to Tax Gap and future contracts to better control costs and timeliness of services completed.
- Ensure future contract payments are aligned with sufficient completion of agreed upon specific tasks rather than providing guaranteed contract amounts for provision of maintenance and enhancement services in general.
- Ensure compliance with contracts and develop and implement a process to ensure complete transfer of knowledge from contractors when agreed to in contracts to help reduce or eliminate, as possible, the need for extensive use and reliance on service providers for on-going IT services contracts for Tax Gap and future systems.
- Take action to ensure sufficient knowledge is transferred from the Teradata, The Sartell Group and Quest Solutions consultants in the event future contractual relationships change. It is important DOR personnel know how to perform and maintain documentation of critical Tax Gap system tasks and responsibilities in the event contractual relationships are discontinued or significant key personnel changes occur under the contracts.
- Consistently perform monitoring procedures to ensure employees' and contractors' compliance with all applicable laws, procedures, rules, agreements, and contract clauses, such as advertising and knowledge transfer.
- Ensure future contracts and related agreements include ownership clauses which provide opportunity for additional State revenue and protect the State's significant investment in the Tax Gap system and future systems.

IPERS - IPERS should consistently comply with all contracting laws, DAS Administrative Rules, and procedures for services contracting.

Response -

DOC – The Department is currently working with the Department of Administrative Services on a Request for Information (RFI) related to the ICON system. The Department will evaluate the next steps once the RFI is received. However, the Department will ensure compliance with all laws, administrative rules and procedures regarding services contracting with ATG and future vendors.

The Department will maintain all significant documentation regarding the ICON system. In addition, the Department will continue to ensure an escrow agreement is in place.

DAS – Current practices include obtaining deliverables for contract work and proper execution before payment. To our knowledge, when I/3 was originally purchased, the modules/functionality received for I/3 Financial were a packaged deal and not individually priced. Vendor Self Service (VSS) was implemented in the Winter/Spring of 2015. As additional functionality related to underutilized modules is requested, project plans and budgets will be developed as needed.

Discussions continue with users regarding what they want from an ERP system and where DAS should move with I/3. Funding issues have limited our ability to procure a new HR/Payroll system, but we continue to discuss the need to update our current system.

DOR –

1) Management endeavors to consistently follow all laws, rules and policies applicable to contracting. In general terms, the bids have been led by DAS procurement, per Code, as the size has exceeded $50,000. The contracts have generally been written with 1 year terms with 5 options to renew in accordance with DAS procurement guidelines. In the last bid, Teradata was the only respondent. We would be open to more specific responses if there are concerns regarding a certain solicitation or contract. It is understood that more responses to the solicitations would benefit the Department and could perhaps lessen the reliance on one provider. Going forward, the Department will work with DAS on suggestions that could increase the number of respondents to our bids.

2) We understand the concern regarding reliance on certain specific long term contractors. The Department has been diligent in making sure solicitations for these contractors were done according to State procurement guidelines. Unfortunately, the specific nature of the work and the high level of expertise required to perform the work have been limiting factors in those qualified to respond to the bids. Changes have been made on our contracts eliminating the benefits based compensation model, which reduced the cost of the contract. Further, the Department no longer uses the consulting services under the original arrangement. The analytics that were provided under that contract are now done by Department staff. We no longer utilize Merit Resources for staffing the Teradata positions. We do not believe the Department has assumed that DBA services and program development represented a one-time cost and have always believed we will need some level of support.

3) The Department understands the concern with excessive hourly rates. We are no longer using DBA services through Teradata. However, we do believe the rates mentioned in your Finding are in line with what other vendors are presently charging for similar technical consulting work. The contractor with Quest is presently receiving $100 per hour. The Department believes that while this is a significant amount, it is in line with other contractors. Our experience has shown that the going hourly rate for technical consulting work is materially higher than our current arrangement. For example, we pay OCIO $119 per hour for IT development work. We would prefer to retain our technical

services through State employees. However, no classification exists with compensation adequate to attract and retain the expertise needed in this case. The Department has obtained a quote from the OCIO's vendor and determined our current contract with Quest Solutions is the lowest price option.

4) The Department agrees that knowledge transfer is a concern. In order to reduce this risk, we have been partnering with OCIO to train internal resources so that they may gradually achieve subject matter expertise.

5) We are aware of the advertising clause and will make every effort to ensure no further issues arise.

IPERS – IPERS agrees with the recommendation as stated above. IPERS will consistently comply with all contracting laws, DAS administrative rules, and procedures for services contracting.

Conclusion -

DOC – Response accepted.

DAS – Response accepted.

DOR – Response accepted.

IPERS – Response accepted.

FINDING D – Reporting

We reviewed reporting requirements for the computer systems and identified findings, as follows.

DOC - While DOC complied with reporting as required by the *Code*, we believe more specific reporting of ICON activity regarding development and implementation of ICON system modules, including costs of each module, would be useful to DOC management, the Legislature, and the Governor. Although there are no current State requirements for reporting specific use of funds spent for ICON, DOC has a fiduciary responsibility to ensure funds are used in the most effective and efficient manner possible. The lack of more specific reporting requirements decreases the State's ability to oversee and track a project of this size to ensure accountability.

DAS - The *Code* requires DAS to submit a report in November to the Governor and Legislature on the operation of DAS for each preceding fiscal year and projecting the goals and objectives of DAS as developed in the program budget report for each fiscal year in progress. The program budget report is required to include all fiscal matters related to the operation of DAS and each program, sub-program and activity, including I/3.

The DAS annual report complies with the requirements of the *Code.* However, we believe more specific reporting of I/3 activity regarding development and implementation of the system, significant system upgrades and future similar projects, including the costs of each module, would be useful to the Governor, the Legislature, and DAS management in decision-making. While there are no current requirements in the *Code* for reporting the specific use of funds spent for I/3, DAS has a fiduciary responsibility to ensure funds are used in the most effective and efficient manner possible.

DOR – Initially the Tax Gap revenue reported to LSA and the chairpersons and ranking members of the Senate and House Ways and Means Committees could not be reconciled to the amounts recorded in the State's accounting system. After additional research by DOR staff, Tax

Gap revenue reported to LSA was able to be reconciled to the amounts recorded in the State's accounting system. The main problem was the lack of coding of Tax Gap revenue in the State's accounting system. All Tax Gap revenue was recorded in the State's accounting system under general tax categories. By using the codes in the Tax Gap system and the information related to the specific deposit to the State's accounting system, DOR staff could reconcile the information. However, due to the confidential nature of the Tax Gap system, we were unable to verify the specific queries of the Tax Gap system. We were able to determine the 2 systems can be reconciled in total.

Recommendation -

DOC and DAS - DOC and DAS, in consultation with the Governor's Office and the General Assembly, should establish periodic reporting requirements for the system projects and future similar projects regarding the use of funds according to the line item project budget and each specific module, progress, accomplishments, status, planned timeline for completion and anticipated total cost of the system project and the cost of each module. Implementation of this recommendation will improve accountability for all funds appropriated to and used for the systems, implementation of new system modules and future similar projects.

DOR - DOR should consider performing and maintaining reconciliations between the information reported to LSA and the State's accounting system. In addition, DOR should consider using sub codes in the State's accounting system which would allow users to determine the amount recorded in the State's accounting system which is related to Tax Gap collections.

Response -

DOC – The Department submits monthly reports to the Legislative Service Agency (LSA), which includes appropriation activity for the Iowa Corrections Offender Network (ICON), appropriation A21. The Department has in the past, and will continue, to respond to additional requests for information from the LSA or other stakeholders as requested to ensure public transparency.

DAS – Line item budgets are developed each budget fiscal year and reviewed within DAS monthly. In addition, I/3 Utility Fees are established and presented to the DAS Customer Council two years in advance of the rate implementation. These documents include explanations of anticipated projects and major tasks.

DOR – All revenue amounts provided in reports to the Legislative Branch, the public or other entities reconcile to I/3 on an ongoing basis. The Department agreed with the recommendation to use a sub code to facilitate reconciliation to I/3 and began to use sub code "TG" last fall.

Conclusion -

DOC – Response accepted.

DAS – Response accepted.

DOR – Response accepted. Subsequent to the completion of our review, DOR provided reconciliations between the information reported to LSA and the State's accounting system.

FINDING E – Ownership, Licensing, and Rights to Information

When the State enters into a software agreement where the State will not own the rights to the software, it is possible the State will become dependent on the contractor. By not owning the software, the State will be reliant on the contractor for all support and may, depending on the complexity of the system, find it cost prohibitive to switch contractors because of the proprietary nature of the software.

DOC – The ICON system is critical to the mission of DOC. The ICON system software had not been developed by ATG prior to the State contracting with ATG. According to a representative of ATG, Iowa is the founding customer of ICON. However, according to DOC staff we spoke with, ATG owns the ICON system rather than DOC or the State. As mentioned previously, DOC did not sufficiently pursue the opportunity during the initial years of the working relationship with ATG to establish an ownership clause in a contract which may have allowed DOC ownership or joint ownership of the ICON system.

According to representatives of DOC, DOC is addressing the ownership issue with the Attorney General's Office in response to the previously issued Review of Statewide Procurement report. In addition, the DOC representatives mentioned DOC continues to keep DAS updated on progress with the Attorney General's Office and will collaborate and implement necessary deliverables with DAS as part of the process.

DOC does not have a copy of the source code for the ICON system modules. However, according to DOC staff we spoke with, ATG placed a copy of the ICON source code in escrow with a mutually acceptable escrow agent and the code is accessible by DOC from the intellectual property management company in the event ATG is no longer able to fulfill its contractual obligations. Effective April 3, 2013, the company notified DOC the escrow account setup is complete.

It is essential DOC establish a specific detailed contract for all future software, IT equipment, and services desired prior to allowing the contractor to proceed with work on a project to establish a base for effective monitoring of progress, controlling costs, and establishing ownership.

DOR – The initial RFP for Tax Gap mentions the service provider selected for the Tax Gap contract was to provide ownership rights to DOR of the software and all items developed under the contract. In addition, the RFP mentions all work and materials under the Tax Gap contract would be the sole and exclusive property of the State and all such material and all copies are deemed "works made for hire" of which the State is deemed the author. However, Teradata proposed revised and additional ownership, licensing and rights to information clauses in its response to the RFP, including in no circumstance would the software and deliverables be considered works for hire. The revised and additional ownership, licensing and rights to information contract clauses proposed by Teradata were agreed to by DOR.

While the Tax Gap contract entered into by DOR with Teradata allows the State ownership of all works made for hire, Teradata has a perpetual, worldwide, non-exclusive, royalty-free right and license to use, display, modify, reproduce, create derivative works, distribute and resell, in source code or object code format, any and all works made for hire. Teradata retained all rights to ownership of the Case Management software, including, but not limited to, the source code. To the extent materials are not deemed works made for hire under the contract, DOR has a perpetual, non-transferrable, non-exclusive license to use software and deliverables under the contract.

In addition, the Tax Gap contract does not allow DOR or the State to share in profits of any sale of the works made for hire, work product or any deliverables and DOR or the State does not have right of accounting or claim to a share of proceeds from the sale of the AC application, including any variations or derivatives. As a result, DOR lost the opportunity to own or share in ownership of the Tax Gap system, including the AC application and money obtained by the contractor from sales of the system or AC application.

Recommendation – DOC and DOR should ensure all future agreements for computer systems include options for intellectual property rights, such as government purpose rights, restricted rights and unlimited rights. These options should provide flexibility to ensure the intellectual property rights included in a particular IT solicitation are appropriate based on who pays for the IT development costs. In addition, DOC and DOR should provide training and/or written guidance on the appropriate use of these terms and conditions.

Response -

DOC – The Department will continue to ensure an escrow agreement is in place. If possible, the Department will ensure all future agreements for computer systems include options for intellectual property rights.

DOR – The Department is unable to comment on decision making related to the terms of the original contract because no employees remain who were involved in those negotiations.

The ownership and licensing of software purchased, developed or modified for state use has been an issue for many years. The Department's practice is to bid all major contracts through the OCIO and the Department of Administrative Services Purchasing Division. DAS Purchasing, the OCIO and the Attorney General have adopted policies and specific contract language covering this issue and the Department strictly follows that approved contract language.

Conclusion -

DOC – Response accepted.

DOR – Response accepted.

FINDING F – DOR Non-compliance with Section 68B.7 of the *Code*

Section 68B.7 of the *Code* includes a 2 year ban on receiving compensation for any services rendered while representing the contractor and working on a project in which the person was directly involved while employed by the State. We identified 2 former DOR employees worked for Teradata, the primary contractor for Tax Gap, within the 2 year ban period, as follows:

- The former DOR Director started working with Teradata within 1 year of leaving employment with DOR. According to staff we spoke with, he worked directly on the Tax Gap project.
- The former DOR Tax Gap Compliance Project Manager also started working with Teradata within approximately 1 year of leaving employment with DOR. According to the RFP documents, he was assigned to work on the Tax Gap project. However, DRF staff were unable to verify if he actually worked on the project.

As a result, DOR did not ensure compliance with section 68B.7 of the *Code* and a potential conflict of interest exists for the 2 former DOR employees due to working on Tax Gap while employed by DOR and subsequently while employed by Teradata.

Recommendation – DOR should implement procedures to ensure work arrangements with former employees do not violate section 68B.7 of the *Code*. Chapter 68B of the *Code* addresses restrictions regarding relationships between the State and former employees.

Response – The two instances cited occurred (and the conflict period expired) well before the tenure of current management. The Department agrees that former employees are restricted in their ability to interact with the Department and the Department requires employees to acknowledge their 68B.7 obligations as part of their exit from employment by the Department. The Department will continue to provide information regarding the provisions of Section 68B.7 to departing employees, and will otherwise comply with the applicable requirements of Iowa Code section 68B.7.

Conclusion – Response accepted.

FINDING G – DOR Employer/Employee Relationship

DAS-SAE Procedure 240.120 requires a determination of an employer/employee relationship be made after selecting a contractor and prior to signing the contract. The determination must be documented on the pre-contract questionnaire. We reviewed Tax Gap computer consultant contracts to determine if there is an appearance of an employer/employee relationship. As a result, we identified 2 individuals who worked for DOR as data warehouse consultants on Tax Gap for at least 10 years. As a result, there is an appearance of an employer/employee relationship for the 2 consultants. One of the consultants worked on Tax Gap for DOR under the Teradata contracts while the other worked on Tax Gap under the initial Teradata contract, then under the State's Merit Resources contract, and subsequently under the Quest Solutions contract agreed to by DOR, which is still in effect.

The Teradata DBA worked for DOR on Tax Gap from December 2002 through June 30, 2012 and the other DBA consultant worked on Tax Gap under the contracts from December 2002 through June 30, 2013. DOR continued using the services of the DBA consultant under the Quest Solutions contract through June 30, 2014 and may use the DBA consultant through June 30, 2017, if all options to renew the contract are executed.

In addition, the consultants are supervised by DOR Tax Gap management personnel, submit weekly or bi-weekly timesheets or activity reports to DOR Tax Gap management personnel for review and approval by and work alongside other DOR Tax Gap employees. The circumstances and number of hours worked for the computer consultants give the appearance of an employer/employee relationship. Circumstances similar to this have resulted in lawsuits which culminated in the employer providing benefits to the contractors because the test of employer/employee relationship was satisfied.

Documentation of assessment of the potential employer/employee relationship was not available when contract documentation was requested from DOR, except for the July 1, 2011 pre-contract questionnaire for staff augmentation services provided by the consultant under the Quest Solutions contract.

Recommendation – DOR should develop a system to adequately address and document factors considered and decisions made regarding employer/employee relationship concerns when procuring consulting or technical services for specific projects. The competitive process used by DOR should ensure the best value is obtained and may include use of contractors which are prequalified by DAS. In addition, while evaluating whether to contract with a consultant, necessary tasks should be evaluated and categorized as to whether or not they are considered on-going needs of DOR. If tasks are primarily considered on-going, consideration should be given to hiring a permanent employee to accomplish the tasks.

Response – The Department takes care to follow the policies and procedures related to contracting for services, including those established by DAS and the OCIO. Though the Department believes that the existing contractual relationship complies with applicable law, the Department will request that the Attorney General's Office review it for compliance. Though we may prefer to hire employees for on-going tasks, the demand for specialized technical services in the overall market ultimately determines whether the State can retain a needed service on an employment basis.

The Department management is focused on reducing the cost of our operations while continuing to satisfy our obligations under the law. As part of that analysis, the Department has sought to reduce the costs of the outside contractors who are providing technical services in connection with the Teradata hardware. That effort resulted in, among other things, the non-renewal of the contract for the higher-priced consulting arrangement. Recognizing our need for ongoing expertise, we have partnered with the OCIO to obtain the services of another Teradata expert. Through our partnership with OCIO, we are able to evaluate the market and determine the lowest-cost alternative for the necessary services.

Conclusion – Response accepted.

A Review of Computer Systems Operated By the Department of Corrections, the Department of Administrative Services, the Department of Revenue, and the Iowa Public Employees' Retirement System

Schedules

DAS I/3 Expenditures by Fiscal Year by Description
For the Period July 1, 1999 through June 30, 2014

Category	2001	2002	2003	2004	2005	2006
Personal services	$ -	-	221,026	866,656	1,206,396	1,993,842
In-state travel	-	-	-	3,170	871	403
State vehicle operation	-	-	-	279	-	-
Out-of-state travel	-	-	3,085	1,320	-	7,812
Other supplies	-	-	93	19,069	-	-
Office supplies	-	-	320	165	37	40
Printing and binding	-	-	-	7,304	1,966	743
Postage	-	-	-	-	-	9
Communications	-	-	11,415	11,998	21,725	16,478
Rentals	-	-	-	156	-	13
Professional and scientific services	-	-	-	27,430	468,200	1,303
Outside services	97,000	-	1,521,041	2,766,960	876,346	9,704
Intra-state transfers	-	-	-	-	-	2,882,705
Advertising and publicity	-	-	-	-	365	-
Outside repairs/service	-	-	922	-	1,011	346
Reimbursements to other agencies	-	-	1,879	1,094	1,436	10,950
Reimbursements to DAS-ITE for IT services *	-	-	84,031	301,052	611,418	755,524
Workers comp reimbursements	-	-	-	-	80	-
IT outside services	-	-	-	-	-	2,229,756
Intra-agency reimbursement	-	-		-	-	-
Equipment - non-inventory	-	-	-	116	-	130
Data processing, inventory	-	-	467,847	33,197	-	-
Data processing non-inventory	-	-	629,105	603,757	1,126,804	-
IT equipment and software	-	-	-	-	-	1,099,373
Other expenses and obligations	-	-	-	-	130	-
Total	$ 97,000	-	2,940,764	4,643,723	4,316,785	9,009,131

* - This is an internal transfer of funds within DAS from DAS-SAE to DAS-ITE to reimburse DAS-ITE for I/3 work performed.

	Fiscal Year							
2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
1,467,183	1,130,438	1,654,678	1,681,231	1,863,595	2,037,184	1,979,062	2,014,096	18,115,387
2,066	7,683	2,179	20	-	-	-	-	16,392
-	-	-	-	-	-	-	-	279
3,221	4,565	5,950	-	-	-	11,063	8,092	45,108
-	-	-	-	-	-	-	-	19,162
-	39	54	-	19	-	9,000	-	9,674
-	45	-	-	9	-	-	-	10,067
16	-	15	-	27	-	187	82	336
8,248	10,047	12,970	8,985	13,393	10,848	12,789	11,232	150,128
-	-	13	-	-	-	-	-	182
-	10,717	11,270	10,275	7,774	226	298	4,673	542,166
176,782	38,092	14,416	114	-	4,299	195	73	5,505,022
-	-	-	-	-	-	-	-	2,882,705
275	1,320	275	-	-	-	-	325	2,560
-	-	-	-	-	-	-	-	2,279
11,900	3,129	9,904	8,040	22,356	11,622	9,007	14,805	106,122
228,829	1,669,021	1,561,996	1,289,160	1,354,990	1,330,031	1,194,944	1,113,895	11,494,891
-	-	-	-	-	-	-	-	80
780,641	1,102,281	112,128	-	109,258	14,550	33,785	24,830	4,407,229
20,106	74,663	91,014	209,831	182,820	266,268	256,265	236,352	1,337,319
32	350	-	19	1,326	-	-	4,697	6,670
-	-	-	-	-	-	-	-	501,044
-	-	-	-	-	-	-	-	2,359,666
1,815,380	1,699,820	1,407,511	2,332,961	1,721,359	1,503,594	2,135,883	2,159,252	15,875,133
-	248,977	-	55	-	-	-	-	249,162
4,514,679	6,001,187	4,884,373	5,540,691	5,276,926	5,178,622	5,642,478	5,592,404	63,638,763

A Review of Computer Systems Operated by
the Department of Corrections, the Department of Administrative Services,
the Department of Revenue and the Iowa Public Employees' Retirement System

Summary of Teradata Contracts by Type
For the Period July 1, 1999 through June 30, 2014

Effective Date	Description	Contract Amount or Increase
Initial Tax Gap Compliance Program Contract		
11/05/99	Initial contract entered into under RFP # 89-030S by IDR with NCR, subsequently Teradata, for development and implementation of the Tax Gap Compliance Program during November 5, 1999 through May 5, 2003 with 2 consecutive 1-year options to extend.	$13,000,000
12/16/02	Add services of 2 EDW consultants at a rate of $165 per hour, up to a total of $660,000,and 1 half-time business analyst at a rate of $186 per hour, up to a total of $186,000, and extend contract expiration date to December 8, 2003.	846,000
05/05/03	Increase contract amount for addition of a business objects consultant and extend contract expiration date to December 8, 2003.	184,680
12/23/03	Increase contract amount by $176,800 for EDW consulting services, extend contract expiration date to June 18, 2004 and increase contract amount by $260,000 for case management maintenance and enhancement services to be performed by a subcontractor, Minnix Software, which later became The Sartell Group, and extend contract expiration date to December 31, 2004. Hourly rates agreed to are $170 for EDW consulting services and $186 for business analyst consulting services.	436,800
06/28/04	Increase contract amount by $300,000 to add infoUSA program set for the case management system maintenance and enhancement services to be performed by Minnix Software, later The Sartell Group, and $176,800 for EDW consultant services and extend contract expiration date to December 26, 2004.	476,800
12/27/04	Increase contract amount by $176,800 for EDW consultant, extend contract expiration date to June 30, 2005, increase contract amount by $270,000 for case management system maintenance and enhancement services provided by Minnix Software, later The Sartell Group, and extend contract expiration date to December 31, 2005. Hourly rate agreed to is $170.	446,800
07/01/05	Increase contract amount to extend contract expiration date for EDW consultant to December 31, 2005 at an hourly rate of $150.	156,000
12/28/05	Increase contract amount by $166,400 for EDW consultant and by $160,000 for case management system maintenance and enhancement services provided by Minnix Software, later The Sartell Group, at an hourly rate of $160 and to extend contract expiration date to June 30, 2006.	326,400
06/21/06	Increase contract amount for case management system maintenance and enhancement services to be performed by The Sartell Group, formerly Minnix Software, and extend contract expieration date to August 26, 2006. Hourly rate is $170 for any hours worked over 70 hours per week.	53,000
08/27/06	Increase contract amount for case management system maintenance and enhancement services and extend contract expiration date to September 30, 2006. Hourly rate is $170 for any hours worked over 70 hours per week.	26,500

A Review of Computer Systems Operated by
the Department of Corrections, the Department of Administrative Services,
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Summary of Teradata Contracts by Type
For the Period July 1, 1999 through June 30, 2014

Effective Date	Description	Contract Amount or Increase
10/01/06	Increase contract amount for case management system maintenance and enhancement services and extend contract expiration date to October 31, 2006. Hourly rate is $170 for any hours worked over 70 hours per week.	26,500
11/01/06	Increase contract amount for case management system maintenance and enhancement services and extend contract expiration date to November 30, 2006. Hourly rate is $150 for any hours worked over 70 hours per week.	32,000
12/01/06	Increase contract amount for case management system maintenance and enhancement services and extend contract expiration date to December 31, 2006. Hourly rate is $150 for any hours worked over 70 hours per week.	32,000
		16,043,480
Case Management System Application Maintenance and Enhancement Services		
12/01/06	To retain Teradata, with The Sartell Group as subcontractor, for case management system maintenance and enhancement services as selected under RFP #806625S436 by DOR and agreed to with Teradata for Tax Gap from December 1, 2006 through November 30, 2009, including option to renew for 3 additional 1-year extension periods. Hourly rate is $150 for any hours worked over 70 hours per week.	1,152,000
12/01/09	Increase contract amount and extend contract expiration to November 30, 2010. Hourly rate is $150 for any hours worked over 70 hours per week.	384,000
12/01/10	Increase contract amount and extend contract expiration to November 30, 2011. Hourly rate is $157.20 for any hours worked over 70 hours per week.	686,400
12/01/11	Increase contract amount and extend contract expiration to November 30, 2012. Bundle price based on 120 hours per week.	665,808
07/01/12	To provide case management system application subscriptions and maintenance services relevant to production and testing and web support.	25,461
12/01/12	To retain Teradata, as selected under RFP #806625S436, to provide maintenance and support to case management system application, with The Sartell Group as subcontractor. The contract includes option to renew for up to 5 additional 1-year extensions through November 30, 2018. Hourly rate is $150 for any hours worked outside of the scope of services.	1,228,392
09/11/13	To retain Teradata, as selected under the request for bid #0713625130, to provide case management system application enhancement services, with The Sartell Group as subcontractor. The contract includes option to renew for up to 5 additional 1-year extensions through September 10, 2019. Pricing for the case management system application enhancement services is included in the related SOW's. The hourly rate is $150 and DOR budgets a total of $135,000 which may be spent for case management system application services in each fiscal year through September 10, 2018. The total estimated contract cost is $810,000, including the first year of the contract and the 5 1-year extensions.	810,000
		4,952,061

A Review of Computer Systems Operated by
the Department of Corrections, the Department of Administrative Services,
the Department of Revenue and the Iowa Public Employees' Retirement System

Summary of Teradata Contracts by Type
For the Period July 1, 1999 through June 30, 2014

Effective Date	Description	Contract Amount or Increase
Teradata Database Administrator		
07/01/06	Teradata database administrator services contract entered into by DOR with Teradata under RFP #050106LW for the EDW from July 1, 2006 through June 30, 2007. Hourly rate agreed to is $118.	245,440
07/01/07	Increase contract amount and extend contract expiration date to June 30, 2008. Hourly rate agreed to is $118.	245,440
07/01/08	Increase contract amount and extend contract expiration date to June 30, 2009. Hourly rate agreed to is $121.54.	252,803
07/01/09	Increase contract amount and extend contract expiration date to June 30, 2010. Hourly rate agreed to is $125.19.	260,395
06/07/10	Increase contract amount for statement of work for extra server work through June 11, 2010. Agreed to a fixed fee of $4,485 for 3 days of Teradata 5400 services.	4,485
07/01/10	Increase contract amount and extend contract expiration date to June 30, 2011. Hourly rate agreed to is $125.19.	260,395
07/01/11	Increase contract amount and extend contract expiration date to June 30, 2012. Hourly rate agreed to is $123.19.	256,235
04/09/12	Increase contract amount to provide extended database maintenance and web support services through May 1, 2012.	3,241
04/09/12	Provide software upgrade services for 3 end-of-life products, including major upgrade of Teradata 5400 to 13.0.1, non-Teradata platform to 13.0.1 and non-Teradata platform to 13.0.0 through May 1, 2012.	22,275
		1,550,709
Teradata Remote System Database Administration Support		
07/01/10	SOW agreed to for $18,000 related to previous Teradata agreements for provision of remote system database administration support through June 30, 2011.	18,000
07/01/11	SOW agreed to for $18,000 related to previous Teradata agreements for provision of remote system database administration support through June 30, 2012	18,000
		36,000
Teradata 560 Server, including Hardware, Software and Maintenance Services		
03/15/13	Purchase Teradata 560 equipment, software, maintenance services, professional services and other deliverables from Teradata, as selected under RFB #0713625119 through March 14, 2014, with 5 annual extensions, potentially through March 14, 2019.	*1,204,815
	Total	$ 23,787,065

*** -** The total cost of the Teradata 560 contract, including all extensions through March 14, 2019 is $1,204,815. The total consists of a one-time fee of $411,447 for equipment, maintenance services of $111,286 for year 1, $134,446 for year 2, $134,446 for year 3 and $137,730 for year 4. In addition, the Teradata 560 contract may be renewed through March 14, 2019. While the maintenance cost is not specified in the contract for years 5 and 6, it appears the annual cost will be at least $137,730 for each year.

A Review of Computer Systems Operated By the Department of Corrections, the Department of Administrative Services, the Department of Revenue, and the Iowa Public Employees' Retirement System

Department of Corrections ICON Expenditures by Fiscal Year by Description
For the Period July 1, 1999 through June 30, 2014

Description	2000	2001	2002	2003	2004	2005	2006
Advertising and publicity	$ -	-	-	-		-	-
Communications	-	-	-	-	101,500	600	600
Data processing, non-inventory	-	-	220,899	-	-	125,125	-
Data processing, inventory	62,790	-	48,300	94,260	-	-	-
Inventory	-	-	45,520	-	-	-	-
IT equipment and software	-	-	-	-	-	-	1,229,665
IT outside services	-	-	-	-	-	-	-
ITD reimbursements	-	-	-	-	-	29,500	-
Office supplies	-	-	-	-	-	2,886	1,175
Other supplies	-	147,871	8,061	13,325	1,875	-	-
Outside services	767,865	678,990	-	-	1,625	219,500	-
Professional and scientific services	652,471	561,855	2,458,075	3,032,572	2,168,399	1,042,394	741,374
Total	$ 1,483,126	1,388,716	2,780,855	3,140,157	2,273,399	1,420,005	1,972,814

Fiscal Year								
2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
600	-	-	-	-	-	-	-	600
-	-	-	-	-	-	-	-	102,700
-	-	-	-	-	-	-	-	346,024
-	-	-	-	-	-	-	-	205,350
6,126	-	-	-	-	-	-	-	51,646
993,184	46,419	439,210	-	-	-	4,569	22,056	2,735,103
1,019,063	1,178,349	1,966,146	1,818,165	1,924,804	1,211,980	1,502,791	2,381,898	13,003,196
-	-	-	-	-	-	-	-	29,500
-	-	-	600	-	-	-	-	4,661
1,250	600	630	-	396	-	-	-	174,008
-	1,823,250	-	-	-	-	-	-	3,491,230
30,330	186,000	-	-	-	-	-	-	10,873,470
2,050,553	3,234,618	2,405,986	1,818,765	1,925,200	1,211,980	1,507,360	2,403,954	31,017,488

Department of Revenue Tax Gap Expenditures by Fiscal Year by Description
For the Period July 1, 1999 through June 30, 2014

Class Description	2000	2001	2002	2003	2004	2005	2006
Attorney General reimbursement	$ -	-	-	-	-	38,765	40,508
Communications	-	-	8,108	9,754	8,966	9,739	9,909
Data processing non-inventory	-	-	-	46,032	93,362	51,743	-
Data processing, inventory	-	-	-	-	8,682	15,109	-
Equipment maintenance supplies	-	-	513	662	935	3,219	705
Equipment-non inventory	-	2,438	-	-	-	-	-
Facility maintenance supplies	-	-	-	-	-	-	-
In state travel	-	-	-	8,426	-	261	-
IT equipment & software	-	-	-	-	-	-	63,874
IT outside services	-	-	-	-	-	-	966,609
ITE reimbursements	-	352,844	650,000	101,036	119,735	138,480	81,075
Office supplies	-	-	8,803	10,639	10,857	15,226	11,524
Out of state travel	-	-	2,563	5,473	3,491	5,775	-
Outside repairs/service	-	-	45,000	92,675	149,500	145,491	-
Outside services	-	268,000	307,501	208,358	113,754	156,286	-
Personal services	-	-	700,838	1,284,849	1,614,383	1,887,692	1,908,850
Postage	-	-	50,249	73,231	76,181	69,873	65,373
Printing & binding	-	-	20,671	21,225	19,013	18,084	11,990
Professional and scientific services	131,579	3,606,092	7,398,006	1,253,019	1,076,199	922,285	305
Reimbursements to other agencies	-	-	371	949	1,008	2,836	26,715
Total	$ 131,579	4,229,374	9,192,623	3,116,328	3,296,066	3,480,864	3,187,437

Fiscal Year								
2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
57,244	70,098	72,487	69,512	64,978	64,256	165,237	168,497	811,582
9,511	10,679	10,959	9,472	10,890	22,426	19,555	19,346	159,314
-	-	-	-	-	-	-	-	191,137
-	-	-	-	-	-	-	-	23,791
-	-	-	-	-	-	-	-	6,034
-	-	-	-	-	22	2,289	110	4,859
-	-	-	-	-	-	2,158	-	2,158
-	4	-	-	1,457	-	-	5	10,153
38,208	34,129	135,656	28,398	45,178	71,427	452,384	433,415	1,302,669
894,282	937,362	841,732	836,974	1,053,611	1,537,973	772,602	768,879	8,610,024
131,049	125,011	92,212	91,779	128,832	230,728	635,876	1,492,100	4,370,757
13,932	12,618	11,768	13,084	14,407	19,739	15,267	15,446	173,310
2,431	2,104	3,418	-	-	2,614	2,757	1,321	31,947
-	-	-	-	-	-	-		432,666
-	966	1,842	-	63	-	1,233	3,151	1,061,154
2,117,384	2,077,871	2,133,512	2,923,772	3,394,870	4,851,062	4,969,156	6,107,321	35,971,560
79,154	88,915	85,373	100,742	114,532	171,909	170,243	241,258	1,387,033
19,639	14,668	17,328	14,555	20,800	23,821	13,253	20,531	235,578
770	237	611	553	228	-	-	10,296	14,400,180
27,964	30,422	33,495	34,015	55,187	73,017	57,482	97,298	440,759
3,391,568	3,405,084	3,440,393	4,122,856	4,905,033	7,068,994	7,279,492	9,378,974	69,626,665

A Review of Computer Systems Operated by
the Department of Corrections, the Department of Administrative Services,
the Department of Revenue and the Iowa Public Employees' Retirement System

Iowa Public Employees' Retirement System Expenditures by Fiscal Year by Description
For the Period July 1, 1999 through June 30, 2014

	Fiscal Year				
Description	**2006**	**2007**	**2008**	**2009**	**2010**
Personal services	$ 282,538	322,954	422,635	520,855	429,057
In state travel	24	-	179	6,209	-
Out of state travel	5,568	3,899	4,624	11,002	4,414
Office supplies	105	678	362	295	-
Printing and binding	178	-	3,249	3,222	-
Postage	-	-	840	-	-
Communications	32,076	5,422	223,144	27,339	475,123
Rentals	-	-	-	5,801	-
Professional and scientific services	557,262	568,409	936,734	920,777	505,602
Outside services	-	192,940	208,121	19,823	3,825
Advertising and publicity	992	-	410	-	-
Reimbursements to other agency	-	25,385	10,649	-	-
IT outside services	35,564	2,030,188	1,844,210	3,527,442	3,135,544
Office equipment	16,940	-	-	-	5,499
Equipment-non inventory	-	-	22,794	2,498	-
IT equipment and software	376,506	2,833,535	856,134	176,328	251,819
Total	$ 1,307,753	5,983,410	4,534,085	5,221,591	4,810,883

2011	2012	2013	2014	Total
498,723	105,940	-	-	2,582,702
-	-	-	-	6,412
-	-	-	-	29,507
-	-	-	-	1,440
-	-	-	-	6,649
-	-	-	-	840
58,583	-	-	-	821,687
-	-	-	-	5,801
384,210	379,531	-	-	4,252,525
-	-	-	-	424,709
-	-	-	-	1,402
-	-	-	-	36,034
3,960,000	2,116,803	1,215,880	3,461,616	21,327,247
-	-	-	-	22,439
-	-	-	-	25,292
185,742	-	-	-	4,680,064
5,087,258	2,602,274	1,215,880	3,461,616	34,224,750

A Review of Computer Systems Operated by
the Department of Corrections, the Department of Administrative Services,
the Department of Revenue and the Iowa Public Employees' Retirement System

Staff

This review was conducted by:

Annette K. Campbell, CPA, Director
James S. Cunningham, CPA, Manager
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Tamera S. Kusian

Tamera S. Kusian, CPA
Deputy Auditor of State

A Review of Computer Systems Operated by
the Department of Corrections, the Department of Administrative Services,
the Department of Revenue and the Iowa Public Employees' Retirement System

Copy of Letter from the Department of Corrections Director

For the Period July 1, 1999 through June 30, 2014

Iowa
Fields of Opportunities

STATE OF IOWA

CHESTER J. CULVER, GOVERNOR
PATTY JUDGE, LT. GOVERNOR

DEPARTMENT OF CORRECTIONS
JOHN BALDWIN, DIRECTOR

March 10, 2009

Over 10 years ago, Advanced Technologies Group (ATG) in conjunction with another firm, bid on a piece of work for the Department of General Services. I was a member of the Selection Committee and while we did not give that particular piece of business to ATG, I did like their approach to technology development.

At that time ATG was a TSB and a vendor on the State contract for IT services through the Department of General Services. We used that contract to hire ATG to do our initial banking program.

At that time we were a much smaller agency, with a nonfunctional data system run by the Department of Human Services under a 28E agreement dating back to 1983.

ATG was the only vendor that showed any interest in working with the DOC. We did try to work with other vendors and hired a consultant to help us select a vendor; however, we were unsuccessful because of our lack of sufficient resources to pay the Oracle charges.

Our first endeavor with ATG was our creation of a unified banking system between the institutions and community-based corrections.

Since that time we have worked with ATG to create the nations premier offender management system.

We have always used the original and succeeding GSE/DAS IT services contracts for IT services and we followed the various state-wide initiatives for TSB firms.

Over the years a virtual sole source relationship has developed between ATG and the DOC. While never the goal or intent of the DOC to become so closely tied to a single IT vendor, the unique public/private partnership has been beneficial to this State. Every project has been on-time, well-received by end-users and met project goals. Additionally, this is a prime example of the State working with an Iowa TSB to create jobs for Iowans. Today ATG hires over 50 individuals in Iowa and continues to be a fully domestic production company, not outsourcing or off-shoring any software development, helpdesk or management functions.

The mission of the Iowa Department of Corrections is:
To advance successful offender reentry to protect the public, staff and offenders from victimization.

(Office) 515-725-5701 - 510 East 12th Street, Des Moines, Iowa 50319 - (FAX) 515-725-5799

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