AUDIT REPORT ON COMPUTER SYSTEMS

Report. The Office of the Auditor of State released a report, 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 on July 1, 2015. The report covers the period of FY 2000 through FY 2014 to determine if certain state agency computer systems were appropriately planned, monitored, and cost effective. The report also reviewed compliance with state law for information technology (IT) contracts. The Departments reviewed 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).

Recommendations. The report’s findings and recommendations are reported by seven functions, including planning; budgeting and funding; contracting and monitoring; reporting; ownership, licensing, and rights to information; noncompliance with Iowa Code section 68B.7; and employer/employee relationship.

Comprehensive plans should be developed to guide development and budgets for IT systems.

- Findings and Recommendations. The DOC should have a comprehensive software development plan to measure progress of work. The DOC and the DAS should maintain all significant documentation related to the ICON and the I/3 planning and monitoring for upgrades, significant enhancements, and future similar projects.

Responses. The DOC responded that due to limited appropriations, the DOC developed ICON based on the level of funding available. The DOC uses a Scope Planning Process (SPP) for large projects within ICON. Future projects are prioritized to automate daily activities of staff in administration, offender services, and security population management. The DOC agreed to develop a detailed comprehensive plan for any future systems. The DAS moved to an established system and will maintain detailed documentation on new projects and major enhancements to I/3.

Budgeting and funding plans should be used at the start of a project that identifies all revenue sources and planned expenditures.

- Findings and Recommendations. The DOC, the DAS, and the DOR should establish a total budget from inception through anticipated completion of all major projects. The departments should have procedures to review monthly budgets and year-end financial statements to improve cost control.

Responses. The DOC responded that due to limited funding, planning beyond a given fiscal year was not possible, but a budget was established. The DOC agreed to develop a comprehensive budget from inception through completion for future programs. The DAS had a detailed budget from FY 2002 through FY 2005. The I/3 system moved from a developing system to an established system in FY 2005. Line item budgets were created and reviewed monthly. The I/3 utility fees are established and presented to the DAS Customer Council two years in advance of the rate implementation. Documentation includes descriptions of anticipated projects and enhancements. The DOC agreed that budgets for major projects need to be developed to track implementation costs and benefits. The department also indicated budgets need to be developed for life cycle replacement of hardware and software. The DOR indicated it is partnering with the Office of the Chief Information Officer (OCIO) to improve IT management. The DOR enhanced the budget management practices so that monthly financial reports are available to leadership.
Contracting and monitoring should be reviewed for compliance with the statement of work, purchase orders, procurement, relevant laws, and good business practices. The report’s findings and recommendations include:

- The DOC did not maintain documentation regarding the lack of a bid process to select a primary vendor. The DOC also did not have a comprehensive contract with ATG for development and implementation of the ICON system from 1998 through September 12, 2010. The DOC paid ATG over $22.0 million during this timeframe. The DOC should consistently comply with all laws, administrative rules, and procedures regarding services contracted with ATG and other future contractors. The DOC indicated it is working with the DAS on a Request for Information (RFI) regarding the ICON system; and will comply with all laws, administrative rules, and procedures regarding services contracted with future vendors; an escrow agreement is in place.

- The DAS agreed to 30 change orders with CGI for the I/3 system development and implementation from FY 2003 through FY 2008. This increased contract costs by approximately $4.2 million, or 45.0%. Most of the change orders were approved after the effective date of the change order. Insufficient detail was provided for invoices submitted by CGI for payment by the DAS from FY 2003 through FY 2005. After FY 2005, invoices submitted for payment included sufficient detail for contract monitoring. Departments are not currently using the inventory and contractor self-service modules developed under the CGI contract. Several departments are not using the fixed asset module. The DAS cannot provide a breakdown of costs for developing the inventory and contractor self-service modules. The DAS decided to focus on the financial component of the I/3 budget system and place the development of a Human Resources Module (HRM) on hold. State agencies continue to use outdated human resources systems. The DAS should consistently comply with all laws, administrative rules, and procedures regarding services contracted with CGI and other future contractors. Change orders should be limited, deliverables should be completed, and contractors should be held to account. The DAS should perform and maintain monitoring procedures for the I/3 system and future similar projects. The DAS responded that current practices include receiving deliverables before payment is made. Vendor Self Service (VSS) was implemented in Winter/Spring 2015. Project plans and budgets will be developed for future uses. Funding issues have hampered the ability of the DAS to develop an HRM.

- Concerns regarding the DOR long-term relationships with Teradata (using The Sartell Group as a subcontractor) and Quest Solutions, include:
  - Long-term service providers could take advantage of the State if they believe they are the only or best provider for the Tax Gap system.
  - Ongoing reliance on contractors and increased contract costs. The initial $13.0 million contract between the DOR and Teradata in November 1999 was for development and implementation to be completed no later than 2006. Through contract extensions, addenda, use of a subcontractor, and other means, the DOR continued the contract with Teradata potentially through March 2019, if all options and extensions are agreed to by both parties. As of year-end FY 2014, the DOR agreements with Teradata total approximately $23.8 million, an increase of 83.0%. Also, the DOR entered into an ongoing contractual relationship with Quest Solutions for data warehouse functions. From December 2002 through FY 2014, the DOR paid more than $2.0 million to Teradata, Merit Resources, and Quest Solutions for data warehouse services over a 10-year period.
  - Excessive hourly rates and amounts paid to contractors ranging from $150 to $170 per hour from December 2002 through June 2006. If the DOR had hired two state employees rather than contracting for services, the Auditor of State’s Office estimates it could have saved approximately $1.9 million (not including employee benefits such as health insurance).
  - There was a lack of knowledge transfer between the DOR and Teradata. Contracts were extended rather than bringing the knowledge in house.
  - Teradata’s noncompliance with the advertising clause in the initial DOR contract. The original contract prohibited Teradata from creating commercial advertising that implies the DOR or the State of Iowa endorsed Teradata products. Specific examples were found that could be viewed as potential violations of the advertising clause. The DOR did not adequately monitor the contract for compliance with the advertising clause.
  - The DOR should consistently comply with all laws, administrative rules, and procedures regarding services contracted for Tax Gap and other future contractors. The report provides detailed steps for improving the DOR contract management. The DOR responded that management strives to comply
with State laws, administrative rules, and the DAS procurement guidelines. The DOR will work with the DAS to attempt to increase the number of vendors responding to bids. Contract changes have been made to reduce costs. Certain functions previously performed by the contractor have been brought in house. The DOR is sensitive to excessive hourly rate concerns. Current charges of $100 per hour with Quest are in line with other contractors; the DOR pays the OCIO $119 per hour for IT development work. No current job description or pay classification exists in State government that is sufficient to attract and retain state employees for these services. The DOR has been partnering with the OCIO to train internal resources for knowledge transfer. The DOR will make every effort to monitor contract compliance with the advertising clause.

- The IPERS did not consistently comply with the DAS procedures that require service contracts to be signed before work begins. There were four identified instances where the contract was signed after the work started. There were five instances found where contract amendments were not dated. The Office of the Auditor of State could not determine if the amendments were in compliance with the DAS' procurement procedures. The IPERS should consistently comply with all laws, administrative rules, and procedures regarding services contracted. The IPERS plans to comply.

Reporting requirements increases the State's ability to oversee and track a project to ensure accountability.

- Findings and Recommendations. The DOC and the DAS complied with reporting requirements as found in the Iowa Code, but the Auditor indicates more specific reporting would be useful to the DOC, the General Assembly, and the Governor. The DOR’s Tax Gap report submitted to the Legislative Services Agency (LSA) and the General Assembly could not initially be reconciled with the State’s accounting system. The DOC and the DAS should consult with the Governor’s Office and the General Assembly to establish periodic reporting requirements for the system projects and future projects. The DOR should reconcile reports between the Tax Gap system and the State accounting system. The DOR should consult with the Governor’s Office and the General Assembly to establish periodic reporting requirements for the system projects and future projects. The DOR should reconcile reports between the Tax Gap system and the State accounting system. The DOR should consider modifying the State accounting system to improve the reporting of amounts related to the Tax Gap collections.

- Responses. The DOC provides monthly financial statements to the LSA that include the ICON appropriation, and will continue to respond to information requests in the future. The DAS responded that line item budgets are developed and monitored monthly. The I/3 utility fees are established and presented to the DAS Customer Council two years prior to implementation. These documents report the anticipated projects and major tasks. The DOR reconciles information on an ongoing basis. Currently, the DOR uses a subcode in the I/3 system to improve reconciliation of amounts reported.

Ownership, licensing, and rights to information assists the State in remaining independent of the contractor. The DOC is the founding member of ICON, but ATG owns the ICON system. The DOC does not have the source code for the modules. The DOC is addressing this issue with the Office of the Attorney General, in response to the previously issued State Auditor’s Office report on Review of Statewide Procurement. An escrow account has been established for the ICON source code and is accessible from the intellectual property management company in the event ATG cannot fulfill its contractual obligations. The initial Request for Proposals (RFP) for the Tax Gap program mentions ownership rights of the developed software will be provided to the DOR. However, Teradata proposed, and the DOR agreed to, terms that permits Teradata to have “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 format, any and all works for hire.” The DOC and the DOR should ensure that all future contracts for IT systems include options for intellectual property rights. The departments should provide training or written guidance on the use of these terms and conditions. The DOC responded they will ensure the escrow agreement remains in place. This will ensure, if possible, that future contracts have an intellectual property rights clause. The DOR declined to comment on the original contract because no employees involved in the negotiations are currently on staff. The ownership and licensing of software has been an issue for many years. The DOR bids all major contracts through the OCIO and the DAS. The Attorney General’s Office, the DAS, and the OCIO have policies and specific contract language relating to this issue and the DOR complies with that contract language.

DOR Non-Compliance with Iowa Code section 68B.7. This Iowa Code section includes a two-year ban on former State employees receiving compensation for representing a contractor and working on a project that the former State employees were directly involved in while working for the State. The report indicates the Office of the Auditor of State found two former State employees working for Teradata within
the two-year period. This includes the former DOR Director and the former DOR Tax Gap Compliance Manager working for Teradata approximately one year after leaving the DOR. The DOR did not ensure compliance with Iowa Code section 68B.7. The DOR should implement procedures to ensure compliance with the law. The DOR responded that the two instances occurred long before the tenure of current management. The DOR now requires employees to acknowledge the obligations under Iowa Code section 68B.7 as part of employment exit interviews.

**DOR employer/employee relationship with contractor employees.** There were two contractor staff that appear to meet criteria to be considered employees of the DOR. They worked on the Tax Gap project for at least 10 years; they were supervised by the DOR Tax Gap management staff and submitted timesheets or activity reports to the DOR management. Similar circumstances in other departments have resulted in lawsuits where the employer had to provide benefits to the contractors because the test of employer/employee relationship was satisfied. The DOR should develop a system to ensure documentation of the employer/employee relationship. If tasks are considered ongoing, the DOR should consider hiring staff rather than contracting for services. The DOR complies with policies and procedures developed by the DAS and the OCIO. The DOR will request that the Office of the Attorney General review contracts for compliance. The DOR may prefer to hire staff, but the IT market determines whether an employee can be retained. The DOR is focusing on reducing operational costs while meeting the requirements of the law. The DOR has reduced hardware service contracts; the DOR is partnering with the OCIO to determine the lowest cost alternatives.

**More information.** The Office of the Auditor of State published a [Review of Statewide Procurement](#) on December 5, 2011. Click [here](#) for a summary of that report’s findings as published in the *FISCAL UPDATE* on December 23, 2011.

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