



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004  
Telephone (515) 281-5834 Facsimile (515) 242-6134

**NEWS RELEASE**

Contact: David A. Vaudt  
515/281-5835  
or Tami Kusian  
515/281-5834

FOR RELEASE December 11, 2009

Auditor of State David A. Vaudt today released a report on the Unemployment Insurance Tax Redesign Project (Project) administered by Iowa Workforce Development (IWD). The review of Project activity was conducted for the period July 1, 2002 through June 30, 2009 in accordance with Chapter 11 of the *Code of Iowa* to determine whether IWD appropriately planned and monitored the Project. We also determined whether Project expenditures were reasonable and appropriate and complied with relevant requirements of the Federal Reed Act, the *Code of Iowa*, administrative rules and procedures.

The Project was initiated by IWD to update its existing 40 year old unemployment insurance (UI) tax reporting system based on concerns reported by employers and to allow for more timely and accurate information from employers. In order to fund the Project, the Iowa Legislature appropriated \$20 million from the \$82.4 million allocated to the State of Iowa by the U.S. Department of Labor under the Federal Reed Act during fiscal year 2002.

While limited work on the Project was completed during fiscal years 2001 and 2002, more substantial work on the Project was completed during fiscal years 2003 and 2007 after the appropriation of Federal Reed Act funding was received. IWD implemented the Unemployment Insurance Tax System (UITS), a temporary system, in January 2007 at a cost of approximately \$4.8 million. UITS is currently available to employers desiring to file UI tax reports electronically. UITS allows employers to report the number of employees and the amount of UI owed by the employer to the State. The new system also allows employers to pay the amount owed through a secure web site. The following table summarizes costs incurred each fiscal year for the Project, including UITS and the new comprehensive UI tax system currently being developed by IWD under the Project.

<b>Fiscal Year</b>	<b>Total</b>
2001 - 2002	Undeterminable
2003	\$ 868,499
2004	661,841
2005	361,347
2006	1,408,750
2007	1,521,776
2008	1,582,433
2009	*2,211,216
Total	<u>\$ 8,615,862</u>

\* As of June 30, 2009, excluding accruals

A new comprehensive UI tax system, My Iowa UI, is based on a similar system in Minnesota. Approximately \$3.8 million has been spent on My Iowa UI under the Project during fiscal years 2008 and 2009. IWD plans to replace UITS with the My Iowa UI system and implement My Iowa UI by December 2009 or early January 2010.

Vaudt reported a significant lack of budgetary control over the Project. According to IWD staff, the Project will cost less than the \$20 million appropriated but they were unable to identify how they determined the cost would be less than \$20 million. Since the Legislature allocated \$20 million to the Project, it appears IWD used this figure as the budget.

Vaudt also reported IWD did not adequately plan or monitor the Project. In addition, Vaudt reported IWD failed to consistently follow contracting requirements established by the Iowa Department of Administrative Services.

Vaudt recommended IWD establish an annual and cumulative line item project budget and monitor the budget monthly. The total annual and cumulative project expenditures should be compared to budgeted line items each month and at the end of each fiscal year to better monitor and control project costs.

Vaudt also recommended IWD develop policies and procedures to ensure future projects are adequately planned and monitored to ensure costs are necessary and reasonable. Vaudt further recommended IWD maintain adequate supporting documentation for all planning, budgeting and contract decisions.

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/index.html>.

**IOWA WORKFORCE DEVELOPMENT,  
REVIEW OF THE UNEMPLOYMENT INSURANCE TAX REDESIGN PROJECT**

**FOR THE PERIOD  
JULY 1, 2002 THROUGH JUNE 30, 2009**



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Telephone (515) 281-5834 Facsimile (515) 242-6134

Auditor of State's Report

To the Governor, Members of the General Assembly, the Director of  
Iowa Workforce Development and Members of  
the Iowa Workforce Development Board:

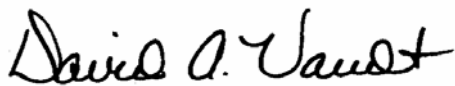
In conjunction with our audit of the financial statements of the State of Iowa for the year ended June 30, 2008 and in accordance with Chapter 11 of the *Code of Iowa*, we have conducted a review of the Unemployment Insurance Tax Redesign Project (Project) administered by Iowa Workforce Development (IWD). We reviewed Project activity for the period July 1, 2002 through June 30, 2009. The review was conducted to determine whether IWD appropriately planned and monitored the Project and complied with requirements of the Federal Reed Act (Reed Act), the *Code of Iowa* and Department of Administrative Services administrative rules. We also evaluated Project expenditures for reasonableness and compliance with the Reed Act.

In conducting our review of the Project, we performed the following procedures:

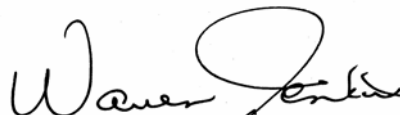
1. Interviewed various personnel and reviewed certain information to obtain an understanding of the Project and related planning and monitoring completed by IWD.
2. Examined IWD planning documents and procedures for the Project to determine whether planning was appropriate, including, but not limited 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. Determined if financial records, reports and monitoring completed by IWD complied with the Project plan, Reed Act requirements and significant laws, administrative rules and procedures.
4. Reviewed certain activity related to service contracts entered into by IWD to determine reasonableness and appropriateness and whether purchases and related activity complied with relevant requirements of the Reed Act, the *Code of Iowa*, administrative rules and procedures.
5. Determined if reports completed by IWD were supported and complied with federal requirements.
6. Evaluated the current agreement with the State of Minnesota for use of its tax system and related planning, contracting and monitoring for appropriateness and reasonableness.

Based on these procedures, we identified concerns with the planning, budgeting and contracting procedures used in the development of the Tax Redesign Project related to the current UITS system and the new My Iowa UI system being developed as a replacement for the current system. As a result, we have developed certain recommendations and other relevant information we believe should be considered by Iowa Workforce Development, members of the Iowa Workforce Development Board, the Governor and the General Assembly.

We extend our appreciation to the personnel of Iowa Workforce Development and the Information Technology Enterprise of the Department of Administrative Services for the courtesy, cooperation and assistance provided to us during this review.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

September 17, 2009

## **EXECUTIVE SUMMARY**

Iowa Workforce Development (IWD) initiated and studied the redesign of the unemployment insurance tax system during fiscal years 2001 through 2003. According to IWD staff we spoke with, the Tax Redesign Project (Project) was initiated for 3 primary reasons:

- To update the existing 40 year old computer system and utilize modern technology to process employer account information.
- To respond to requests from employers asking for more self-management abilities, including on-line payment and filing of reports, similar to those provided by other State and Federal agencies.
- To provide more timely and accurate information to employers regarding their unemployment insurance (UI) accounts.

In order to fund the Project, IWD requested funding from the State's "Return on Investment Program". When the application for funding was denied, IWD began looking at other options to fund the Project. Late in calendar year 2001, IWD was notified it would be receiving an allocation from the U.S. Department of Labor (DOL) Reed Act Program. Funding from the Reed Act is to be used for purposes of paying unemployment and improving the delivery of unemployment services, including updating outdated systems. Prior to being awarded the Reed Act funds, IWD used funds appropriated from the State General Fund for the Project. IWD was unable to provide any documentation indicating a plan was developed for the design, testing and implementation of the new system. In addition, IWD staff did not track the amount expended from the State's General Fund appropriations for the Project prior to receiving the appropriation from the Reed Act. As a result, we can not determine the total cost of the Project.

In March 2002, the State received \$82.4 million from the U. S. Department of Labor (DOL) for its portion of a special transfer under the Federal Reed Act (Reed Act). In accordance with Federal Reed Act requirements, the General Assembly appropriated \$20 million of the \$82.4 million during the 2003 legislative session for the purpose of automating and updating the unemployment insurance tax and claim system.

During fiscal years 2001 through 2005, IWD worked with Information Technology Support Center (ITSC), an entity recommended by DOL, to develop a strategic plan for updating the existing UI system to a web based system. According to IWD staff we spoke with, "minimal progress" was made while working with ITSC. Therefore, IWD discontinued working with ITSC in 2005 and considered other alternatives for implementation of the Project.

In October 2004, IWD issued a Request for Proposals (RFP) for the development of a new web based UI system. Based on the results of the RFP, IWD selected Covansys to help in the development and implementation of the Unemployment Insurance Tax System (UITS). However, negotiations with Covansys were not successful and ceased in November 2005. According to IWD staff, Covansys representatives decided not to enter into a contract with IWD.

After negotiations with Covansys were terminated, IWD began negotiations with Bearing Point. Bearing Point was the next highest rated vendor under the RFP process. Bearing Point was also the company used by the State of Minnesota for the development of its system. Negotiations were terminated when the Iowa Attorney General's Office would not agree to certain clauses relating to limits of liability required by Bearing Point.

As a result, IWD began looking for other options, including using another state's system as a starting point for developing the new UITS system. During 2005, IWD identified the State of Minnesota's system as a possible starting point for Iowa's new system. IWD completed an analysis of Minnesota's system and visited Minnesota to observe its system during 2006. However, Minnesota was unable to negotiate with Iowa until it completed the contract and made the final payment to the vendor in May 2007.

Because IWD continued to receive requests from employers to develop a web based system, and



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## A Review of the Unemployment Insurance Tax Redesign Project

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Minnesota was unable to negotiate with Iowa for the use of its system, David Neil, the Interim Director of IWD at the time, made the decision to continue the development of the UITS system in-house based on input from key state information technology (IT) personnel. According to IWD staff we spoke with, IT staff determined it would be possible to develop a system using internal staff with help from the Information Technology Enterprise of the Department of Administrative Services (DAS-ITE).

In July 2006, IWD entered into an agreement with DAS-ITE to provide application implementation services for the Project. IWD also entered into a Statement of Work (SOW) with Iowa Interactive for development and implementation of the UITS system under an addendum to the DAS IowaAccess network services agreement. Iowa Interactive had already been approved by DAS-ITE for the development of web based computer systems and had entered into a master contract which allowed state agencies to contract with them without having to go out for bid.

IWD implemented the UITS system in January 2007 for employers desiring to file UI tax reports electronically. As of June 30, 2008, approximately 33% of employers were filing UI tax reports electronically through the UITS system. Since the beginning of fiscal year 2003, when IWD began to track expenditures for the Project, approximately \$8.6 million has been spent on the development of the system as of June 30, 2009. This includes approximately \$4.6 million for personnel costs, approximately \$1.1 million for outside IT services and approximately \$1.9 million for equipment and software.

During the design and implementation of the UITS system in fiscal years 2006 and 2007, IWD identified several defects and other concerns, such as a lack of system documentation relating to Iowa Interactive's work on the system. As a result, IWD decided to discontinue use of Iowa Interactive for further development of the UITS system. IWD continued to work with Iowa Interactive to complete phase I of the Project. In June 2007, IWD approved Iowa Interactive's work on phase I of the Project, which resulted in UITS being deemed complete.

Originally, IWD planned to add additional modules to the UITS system over the next several years. Since IWD decided to end the contract with Iowa Interactive for future development of the system, Minnesota was contacted to determine if it would be possible to use the Minnesota System once Minnesota completed the terms of its contract. On August 8, 2007, Iowa and Minnesota entered into a contract allowing Iowa to use Minnesota's system framework as a starting point for developing a new system. In December 2007, Minnesota provided copies of its system framework to Iowa and IWD completed installation of the system framework in February 2008. IWD is now in the process of modifying Minnesota's system framework to fit Iowa's needs. The new system is called My Iowa UI.

IWD plans on implementing My Iowa UI in late December 2009 or early January 2010. While development on the new system continues, the UITS system implemented in January 2007 is being used as a temporary system. The temporary UITS system is currently available to employers desiring to file UI tax reports electronically.

**Review summary and concerns identified** – During our review of the Project we identified certain concerns regarding project planning, budgeting, reporting and contracting. IWD is not required to comply with OMB Circular A-87 for the Project. However, certain restrictions regarding how Reed Act funds may be used are contained in section 903(c)(2) and 903(d)(4) of the Social Security Act (Reed Act requirements). Reed Act requirements limit use of Reed Act funds to payment of expenses incurred for administration of its unemployment compensation law and public employment offices, which must be specified in the State's appropriation law.

According to Training and Employment Guidance Letter number 24-10 of the Federal DOL (guidance letter), an appropriation by the Legislature is necessary before the State's share of the fiscal year 2002 special transfer of Reed Act funds may be used for administrative expenses. Also, DOL recommended in the guidance letter each state consider setting aside a portion of its Reed Act distribution to be used for unemployment insurance and employment service automation costs to help assure states have sufficient funds to invest in large computer installations and upgrades and related costs.

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## A Review of the Unemployment Insurance Tax Redesign Project

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We reviewed and tested available information regarding administration of the Project and discussed various stages of the Project with IWD staff. In addition, we tested related expenditures for compliance with the Reed Act requirements, relevant sections of the *Code of Iowa* and DAS administrative rules and procedures. As a result of procedures performed, as summarized in the Auditor of State's Report, we identified the following concerns regarding the Project:

- Project planning – IWD did not maintain sufficient documentation to determine if comprehensive planning occurred from the beginning of the Project through fiscal year 2008. Due to a lack of documentation, especially prior to fiscal year 2006, it was difficult to assess the adequacy of planning for the Project. The lack of documentation, budgets and the number of changes in the direction of the Project during fiscal years 2001 through 2008 demonstrate a lack of sufficient and coordinated planning, a result of which is increased costs and waste of resources, including staff time. Because of the lack of records, we are unable to determine costs which may have been saved if detailed planning and budgeting had taken place.
- Project budgeting – We identified a significant lack of budgetary control over the Project. According to IWD staff we spoke with, the Project will cost less than the \$20 million appropriated. We were unable to identify how IWD staff determined the cost would be less than \$20 million. Since the Legislature appropriated \$20 million to the Project, it appears IWD used this figure as the budget. We requested copies of the original budget prepared for the Project and any budget to actual reports. IWD staff was unable to provide any budgets for the Project, including an initial budget or any budget to actual comparisons for the Project during fiscal years 2003 through 2005. IWD staff stated financial management staff tracked expenditures for the project during fiscal years 2006 through 2008.
- Project reporting – IWD only reported total expenditures from the Reed Act funds as required by DOL. DOL requires the total amount spent be reported but does not require any detailed reporting regarding how the funds were expended. In addition, status reports or financial/budget reports were not requested by the Legislature for the Project when it appropriated the \$20 million from the Reed Act funds. Therefore, no status or financial reports were prepared for the Legislature to show how the funds were to be expended.
- Contracting concerns – We identified several instances in which the contractor selection process, contract monitoring and evaluation of services provided by contractors were not documented.
- Minnesota agreement – The agreement with the State of Minnesota includes an open-ended compensation clause which would have allowed Minnesota to charge Iowa any amount it chose. According to a representative of Minnesota, "They will not charge IWD for the use of the coding." This portion of the project is complete.

Based on the timeline provided by IWD staff, they were aware the Minnesota system framework may be available for use in the future. However, IWD staff we spoke with stated larger employers were pushing for a new electronic web based filing system. Because IWD was not sure how soon the Minnesota system would be available, they entered into an agreement with DAS-ITE and Iowa Interactive to develop the system currently in use.

Based on the above concerns and the possibility IWD would eventually be able to use the Minnesota system framework as a starting point for the design of a new tax system, we question whether IWD expended the Federal funds in the most efficient and economical manner. As a result of the concerns identified and because IWD was aware the Minnesota system would be available by January 2008 as a framework for a new UITS, IWD may have incurred additional and unnecessary costs to develop the temporary system. While the Department was unable to provide the total costs spent for the temporary system, we determined the majority of the costs incurred prior to fiscal year 2008 were for the temporary system. These costs total \$4,822,213, including approximately \$883,000 spent on office and IT equipment and software during fiscal years 2003 through 2007, which may have been necessary for both UITS and My Iowa UI.

## **BACKGROUND**

Iowa Workforce Development (IWD) administers the unemployment insurance (UI) tax and claim system. The system is used by employers to electronically file their employer's contribution and payroll report and to pay their UI contribution online. According to IWD staff we spoke with, the redesign of the tax system was initiated during fiscal year 2001 for 3 primary reasons:

- To update the existing 40 year old computer system and utilize modern technology to process employer account information.
- To respond to requests from employers asking for more self-management abilities similar to those provided by other State and Federal agencies.
- To provide more timely and accurate information to employers regarding their UI accounts.

During fiscal years 2001 through 2005, IWD worked with the Information Technology Support Center (ITSC) to develop a strategic plan for a new system. ITSC was recommended by the U.S. Department of Labor (DOL) because of their previous experience with similar projects. ITSC is a national collaboration of State Workforce Agencies, the U.S. Department of Labor and private partners. ITSC works to improve information technology (IT) to provide more accurate, efficient and cost effective service to all unemployment insurance customers. According to IWD staff, limited progress was made with ITSC during fiscal years 2001 through 2005. As a result, IWD discontinued its relationship with ITSC. IWD staff prepared a list of items which were completed with ITSC's help during fiscal years 2001 through 2005, including:

- Provided a high level cost analysis and schedule estimates.
- Completed an "as is" model and a "to be" model.
- Completed concept of operations and vision documents.
- Began discussions of system architecture.
- Began supplemental system specifications, or system requirements documents.
- Began use case development.

When we asked IWD staff to provide copies of the information for review, they were unable to locate the information. According to staff we spoke with, they believe the information was destroyed several years ago.

### **Funding**

During July 2001, IWD attempted to obtain funding for the Project through the State of Iowa's "Return on Investment Program" (ROI). The ROI program was established by the Department of Administrative Services to evaluate the benefits of information technology projects and to allocate funding to those projects. IWD requested \$1,850,000 per year for fiscal years 2003, 2004 and 2005 for a total of \$5,550,000. IWD staff we spoke with stated the application for funding was denied, but they were unable to provide the reason for the denial.

On March 13, 2002, DOL allocated \$82,395,262 to the State of Iowa under the Reed Act. The Reed Act allows the funds to be used for purposes of paying unemployment and improving the delivery of unemployment services, including updating outdated systems. DOL did not establish a timeline for the use of the funds. In accordance with the requirements set by DOL governing the allocation, IWD requested the 80<sup>th</sup> General Assembly appropriate \$20 million of the total funds received for purposes of automation and technology for the unemployment insurance tax and claim system beginning in fiscal year 2003.

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## **A Review of the Unemployment Insurance Tax Redesign Project**

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IWD is not required to comply with OMB Circular A-87 for the Project. However, certain restrictions regarding how Reed Act funds may be used are contained in section 903(c)(2) and 903(d)(4) of the Social Security Act (Reed Act requirements). Reed Act requirements limit use of Reed Act funds to payment of expenses incurred for administration of its unemployment compensation law and public employment offices, which must be specified in the State's appropriation law.

According to Training and Employment Guidance Letter number 24-10 of the Federal DOL (guidance letter), an appropriation by the Legislature is necessary before the State's share of the fiscal year 2002 special transfer of Reed Act funds may be used for administrative expenses. Also, DOL recommended in the guidance letter each state consider setting aside a portion of its Reed Act distribution to be used for unemployment insurance and employment service automation costs to help assure states have sufficient funds to invest in large computer installations and upgrades. In addition, the guidance letter includes examples of how Reed Act funds may be used for activities which support administration and service delivery of unemployment insurance and employment services, such as:

- Staff for delivery of services,
- Equipment and resources,
- Rent, utilities and maintenance of facilities,
- Computer, network and telecommunications equipment, application development and other technology resources.

While most of the Project costs reviewed are considered allowable for the purposes of the Project, we identified a lack of:

- Adequate planning and monitoring,
- Reporting requirements,
- Compliance with contracting requirements established by the Iowa Department of Administrative Services and
- Documentation to support some expenditures.

We also identified a significant lack of budgetary control over the Project. We requested copies of budgets or other information provided to the Legislature showing the amount of Reed Act funds necessary for the Project. IWD was unable to provide any information or support for how the \$20 million request was determined.

Prior to being awarded funding under the Reed Act, IWD funded the Project using general operating funds. According to IWD staff we spoke with, IWD staff previously involved with the Project left employment and records were destroyed or did not exist. As a result, staff was unable to provide any support for how much had been expended from general operating funds on the Project prior to fiscal year 2003. Also, because IWD did not maintain sufficient financial information or any type of budget for the Project until the federal funds were made available in fiscal year 2003, we are not able to determine the total amount expended for the Project prior to fiscal year 2003.

### **Contracting**

After IWD discontinued working with ITSC due to lack of progress in developing the new system, IWD used a competitive bid process to select a vendor to contract with for the development of the Project. IWD began negotiations with Covansys, the winning bidder, in June 2005 with the assistance of the Attorney General's Office. However, negotiations with Covansys were not successful. According to IWD staff, Covansys representatives decided not to enter into the contract and ceased negotiations with IWD in November 2005.

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## **A Review of the Unemployment Insurance Tax Redesign Project**

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Subsequently, IWD began negotiation with Bearing Point, the next highest rated bidder. Bearing Point was also the company hired by Minnesota to develop its new UI tax system. Bearing Point would not consider contracting with IWD unless DAS and the Attorney General's Office agreed to a modification regarding vendor limits on liability. According to IWD staff we spoke with, IWD and the Attorney General's Office were not comfortable with the proposed modifications regarding limits on liability. Negotiations ended when an agreement could not be reached on this issue.

During 2005, IWD also began considering the possibility of using another state's system as a starting point for developing the Unemployment Insurance Tax System (UITS). IWD identified the State of Minnesota's system as a possibility based on discussion with Minnesota Unemployment Insurance Division staff. Minnesota undertook an overhaul of its tax system beginning in 2003. As mentioned previously, Minnesota contracted with Bearing Point to complete redesign of its system, including a new Telephony system and a web based tax system. However, Minnesota representatives were not yet able to provide a timeframe to Iowa regarding when negotiations for use of the Minnesota UI tax system framework could be initiated.

After being unable to find a suitable vendor, IWD decided to work on the Project in-house and not reissue a Request for Proposals. In July 2006, IWD entered into a service level agreement with the Department of Administrative Services, Information Technology Enterprise (DAS-ITE) to provide application implementation services for the Project. After further discussions with DAS-ITE, it was decided to use Iowa Interactive, which was already under contract with DAS-ITE to provide lowAccess network services to DAS and other State agencies.

DAS entered into a Statement of Work (SOW) with Iowa Interactive under the lowAccess Network Services Agreement with Iowa Interactive on July 25, 2006 for the development and implementation of UITS. At the same time, IWD entered into an addendum with DAS-ITE for provision of UITS application implementation services in accordance with the Network Services Agreement SOW. According to DAS and IWD staff we spoke with, general oversight was provided by DAS-ITE, while specific day-to-day oversight of Iowa Interactive was primarily completed by IWD staff.

### **Implementation**

IWD completed and implemented UITS in January 2007. However, IWD was not satisfied with results of UITS work completed by Iowa Interactive to date, especially as related to system documentation and several other deficiencies identified by IWD. Therefore, IWD decided not to continue using Iowa Interactive to develop a comprehensive UI tax system and negotiated an agreement with Minnesota in August 2007 for use of its UI tax system coding as a framework for developing a new UI tax system. However, Minnesota was not able to let Iowa use the system coding until final payment was made to its vendor.

After Minnesota made final payment to Bearing Point in January 2008, IWD started working on the new UI tax system which would replace UITS. IWD has named the new system My Iowa UI, which is based on Minnesota's system framework. The new framework coding was installed in February 2008 and IWD is currently developing My Iowa UI with a goal of implementing the system in December 2009 or January 2010. Funding for the new tax system is coming from the remaining \$11.4 million of the \$20 million appropriated by the Legislature from the Reed Act in 2003. IWD was not able to provide a detailed budget for the development and implementation of the My Iowa UI system. IWD staff we spoke with were only able to tell us the cost for the new system would not exceed the remaining \$11.4 million available. This includes development, implementation, training and transferring the data to the new My Iowa UI system.

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## A Review of the Unemployment Insurance Tax Redesign Project

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According to staff we spoke with from the Minnesota Unemployment Insurance Division, about \$17 million was spent to develop and implement the portion of their system which is similar to Iowa's Project. Minnesota implemented its redesigned UI tax system in stages and completed the final phase in 2008.

### Project expenditures

As mentioned previously, the Project is currently being funded using \$20 million appropriated by the Legislature from Federal Reed Act funds. As of June 30, 2009, IWD has spent approximately \$8.6 million of the \$20 million appropriated from the Reed Act on the Project. **Table 1** summarizes the total Project expenditures for fiscal years 2003 through 2009. As previously stated, the Project was already in progress in 2003. According to IWD staff, funding for the costs incurred prior to 2003 were paid using general operating funds and the amount expended was not tracked. As a result, IWD could not determine the amount expended during fiscal years 2001 and 2002 on the Project and the total cost of the Project can not be determined.

<b>Fiscal Year</b>	<b>Total</b>
2001 - 2002	Undeterminable
2003	\$ 868,499
2004	661,841
2005	361,347
2006	1,408,750
2007	1,521,776
2008	1,582,433
*2009	2,211,216
Total	<u>\$ 8,615,862</u>

\* - as of June 30, 2009, excluding accruals

**Schedule 1** provides a detailed breakout by category, such as payroll, travel, equipment, software and IT service providers, for each of the fiscal years shown in the **Table**. As shown in **Schedule 1**, approximately \$4.6 million, or 54%, of the total has been spent on personal services. As stated earlier, IWD did not track expenditures prior to fiscal year 2003, so the total costs incurred for the Project shown in **Table 1** and **Schedule 1** are understated. The expenditures for fiscal years 2003 through 2007 were mostly for the development of the temporary system. After fiscal year 2007, IWD began work on the replacement system which was based on Minnesota's system.

As stated previously, because IWD was not able to separate expenditures between the temporary system and the new system based on Minnesota's system, we can not determine the costs incurred for each system. Of the total costs shown in **Table 1**, costs for fiscal years 2003 through 2007, totaling \$4,822,213, were primarily for the temporary system and costs totaling \$3,793,649 for fiscal years 2008 and 2009 were primarily for the new system.

### TAX REDESIGN PROJECT REVIEW SUMMARY

We reviewed and tested available information regarding administration of the Project and discussed various stages of the Project with IWD staff. In addition, we tested related expenditures for compliance with the Reed Act requirements, relevant sections of the *Code of Iowa* and DAS administrative rules and procedures. As a result of the procedures performed, we identified the following areas of concern:

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## **A Review of the Unemployment Insurance Tax Redesign Project**

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- Planning – IWD was not able to provide comprehensive documentation regarding planning completed for the Project.
- Budgeting – IWD did not establish and consistently use a budget to periodically compare actual to budgeted costs for the purpose of controlling costs for Project development and implementation of UITS and My Iowa UI.
- Expenditures – IWD did not adequately track and monitor expenditures for the Project.
- Reporting – Neither the Legislature or IWD management required reports be submitted to track the progress of the Project and the use of available funds.
- Contracting – IWD did not maintain documentation showing a bid process was used to select vendors or support for why a bid process was not used.
- My Iowa UI - IWD plans to scrap UITS and implement My Iowa UI in its place. We question whether IWD expended the Federal Reed Act funds in the most effective and economical manner. IWD was not mandated to proceed with the Project and could have waited to develop and implement a new tax system after Minnesota's system was completed. A significant portion of the approximately \$4.8 million spent on UITS would have been avoided if IWD had waited to proceed with the Project. However, the IWD interim director at the time, in consultation with key State IT personnel, decided IWD should proceed with the Project to allow employers to file their quarterly employer's contribution and payroll report electronically.

Each area of concern is described in more detail in the following sections of this report.

### **Planning**

A system redesign project of this magnitude requires detailed comprehensive planning to facilitate the process. Planning should include documentation of items such as cost estimates, project budgets, system software development plans, milestones, performance measures, staffing and staff responsibilities, including, but not limited to, system development, monitoring and reporting.

IWD staff changes and planning documentation – According to IWD staff we spoke with, IWD had several changes in staff during fiscal year 2006 due to resignations and terminations. Some of the former staff had been involved in the planning, oversight and financial management of the Project. As a result, IWD was unable to provide documentation of detailed planning for the period prior to and during fiscal year 2006. It is not known if detailed planning was completed by previous staff. Planning information expected to be maintained, but which was not available, included:

- Significant decisions made regarding the Project,
- Decisions regarding use of in-house resources or contracting,
- System planning,
- Budgeting and
- Monitoring responsibilities.

UITS completion – Originally, the Project was to be completed in 5 phases, including:

- Electronic submission and payment via internet website,
- Imaging and workflow,
- Enable employer maintenance, automate internal account maintenance and implement workflow,

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- Automate collections and implement workflow and
- Automate field audit and implement workflow.

Because IWD was unable to establish an agreement with Covansys or Bearing Point, IWD contracted with DAS and Iowa Interactive for work on Phase 1. During development of Phase 1, which resulted in UITS, IWD became concerned with the lack of sufficient system documentation maintained by Iowa Interactive. According to IWD staff, many defects and problems within UITS were identified during fiscal years 2006 and 2007, as evidenced by a 210 page defect report from testing conducted on UITS by IWD. As a result, IWD terminated the contract with Iowa Interactive after Phase 1 was completed. IWD also decided not to proceed with phases 2 through 5 of the Project.

In January 2007, IWD implemented Phase 1 of the system designed by Iowa Interactive as a temporary tax system. Phase 1 was designed to allow employers to file reports on-line and remit the unemployment insurance tax owed to the State through a secure website. In June 2007, IWD determined Iowa Interactive's work under the SOW was acceptable after the defects identified were resolved. In accordance with the SOW entered into by IWD for Iowa Interactive IT services to complete UITS, IWD was required to pay DAS a maximum of \$200,000 for employer reports being filed online, based on \$2.00 per filing until 100,000 reports were filed. IWD pays DAS each month based on the number of reports filed electronically and DAS pays Iowa Interactive. As of June 30, 2008, a total of \$180,994 had been paid by IWD to DAS-ITE for 90,497 reports filed electronically by employers in Iowa for the period from January 2007 through June 30, 2008.

Planning concerns – Based on our review of available planning documentation and inquiries of IWD staff, we identified the following concerns:

- We found little evidence of a comprehensive plan being prepared or maintained. We requested planning documentation from IWD staff, but they did not provide any support for the planning phase. One of the reasons given for the lack of documentation was the loss of staff involved early in the Project.
- According to IWD staff, several planning documents for the Project, such as strategic plan, concept of operations, use case development, quality assurance plan and system architecture, were completed while working with ITSC. These documents could not be located when we requested copies. Instead, IWD staff provided verbal responses to our questions and subsequently created written responses to planning questions in several instances rather than providing file copies of historical planning documents and background information.

Following discussions with IWD staff, IWD created a timeline for the Project, including significant Project events as summarized in **Appendix A**. IWD created the timeline in response to our requests for information. This was not an actual planning document, but is IWD's attempt to explain the process.

As stated previously, a project of this size requires significant planning, including the evaluation of available options, user input, resources needed and resources to be used, project milestones and timelines for implementation. Good business practices dictate sufficient planning to ensure successful completion of the Project at a reasonable cost. Findings regarding planning improvement for the Project are summarized in **FINDING A**.

### **Budgeting**

As part of an overall project plan, a detailed line item budget should be developed and used from the start of a project 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.



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Budgeting concerns – As mentioned previously, DOL allocated approximately \$82.4 million to Iowa under the Reed Act. From the \$82.4 million, the Legislature appropriated \$20 million for the Unemployment Insurance Tax Redesign Project. According to IWD staff we spoke with, the Project will be completed at a total cost of less than \$20 million. However, IWD staff was unable to provide a budget showing plans for how the funds are to be spent and did not maintain documentation demonstrating budgetary control over Project funds, including periodic comparison to actual costs incurred to date.

According to IWD staff, former IWD management staff tightly controlled financial information prior to fiscal year 2006 and did not share financial information with the Project staff. When we requested information regarding budget and actual expenditures, IWD staff was unable to provide this information and stated the information was not provided to Project staff by the former management staff, if it existed.

Following multiple requests, IWD financial management provided copies of draft budgets for fiscal years 2007 and 2008. We identified the following concerns with the draft budgets and lack of budgetary control over costs for the Project:

- IWD Project staff did not have a Project budget and did not monitor and control Project costs. Proper planning and budgeting should include details on how the funds are to be spent. The fiscal year 2007 draft budget finally provided by IWD financial management includes total anticipated Project costs of \$16,221,830. However, \$12,926,777 of the \$16,221,830 is included on the other supplies line and is footnoted as “Funds in object class 308 are reserved for SFY 08”. The other supplies line was 80% of the draft budget, but no plans or specific uses of what made up “other supplies” was identified. A copy of the fiscal year 2007 draft budget is included in **Appendix B**.
- The fiscal year 2008 draft budget eventually provided by IWD financial management shows \$14,700,055 of total anticipated costs for the Project as of June 16, 2008. The fiscal year 2008 draft budget includes \$8,388,842 for other supplies and \$3,200,000 for professional services. These 2 line items represent 79% of the draft budget, but no plans or specific uses of the other supplies and professional services line items were identified by IWD. According to IWD staff we spoke with, these amounts were reserved for expenditures in fiscal year 2009. A copy of the fiscal year 2008 draft budget is included in **Appendix C**.

According to staff in the Financial Management Division, they track costs recorded in the State’s I/3 financial accounting system using a separate cost center. They are also tracking the status of the remaining \$20 million appropriated. According to IWD staff, the information is being used to track costs to determine if the Project will exceed or be under budget. IWD financial management appears to be monitoring only total costs for the primary purpose of tracking appropriation status and not for monitoring and controlling specific Project expenditures.

It is important project costs are estimated during the early stages of planning a project and actual costs incurred need to be tracked, monitored and compared to the budget for the duration of the project and be available to project management staff at least monthly. Without sufficient budgetary controls in place, project costs may exceed necessary and reasonable costs, which could result in inefficient or inappropriate use of taxpayers’ money. Findings regarding project budgeting improvement are summarized in **FINDING B**.

### **Reporting**

In accordance with the reporting requirements of the Reed Act, IWD is only required to report the total amount of fund activity each month, such as total deposits to and withdrawals from the State account, and enactment of State appropriations. The reports have been completed, reviewed and submitted by IWD financial management staff. Other than the reports required by the Reed Act, IWD is not required to report on the use of the funds to the Legislature or other oversight body. Therefore, specific information on how the funds are spent is not reported.

Also, legislation appropriating the Reed Act funds does not require any reports to be filed with the Legislature or other oversight bodies. We reviewed certain reports prepared by IWD, such as the IWD annual report and annual performance reports, and noted limited information is reported regarding accomplishments of the Project. The information reported by IWD does not include enough information to allow effective monitoring and assessment of progress, efficiency and use of the funds.

Reporting concerns - Although there are no Federal requirements for reporting the specific uses of the Reed Act funds, the State has a fiduciary responsibility to ensure funds are used in the most effective and efficient manner possible. The lack of reporting significantly decreases the State's ability to oversee and track a project of this size to ensure accountability. Accountability would be improved if reports, including periodic project status reports, budget to actual reports and reports showing progress toward milestones and goals, were required to be submitted to the IWD Director and other State officials, as appropriate.

Therefore, it would be prudent for the State to consider implementing more detailed reporting requirements. Findings regarding Project reporting are summarized in **FINDING C**.

### **Contracting**

In order to carry out the Project, IWD determined it would be necessary to contract with various companies for services and equipment. When entering into a contract for goods or services, IWD has several options, including use of DAS master agreements, Federal contracts, Western States Contracting Alliance (WSCA) master pricing agreements or the Invitation to Qualify (ITQ) process, or IWD may contract for services with a company it selects. A brief description of each contracting option used by IWD for the Project is summarized as follows.

DAS master agreements – DAS enters into “Master Agreements” for purchasing goods and services commonly used by State agencies, such as office supplies. The master agreements establish prices and general terms and conditions for purchase of goods and services. According to DAS administrative rules, State agencies may purchase from a DAS master agreement without further competition. However, State agencies must comply with the provisions of DAS administrative rules contained in IAC [11]-Chapters 106 and 107 when purchasing services under contracts.

Federal contracts – State agencies using Federal funds may also use contracts negotiated by the Federal government for purchase of goods and services. This is allowed since many of these contracts have been negotiated using a competitive process to ensure the best price is received.

Invitation to qualify (ITQ) – As authorized by the *Code of Iowa*, DAS also established master agreements with several IT consultant service providers through an Invitation to pre-Qualify (ITQ) process. DAS administrative rules require a State agency to select an ITQ vendor as possible when purchasing IT devices or consultant services, unless otherwise approved by DAS-ITE.

Western States Contracting Alliance (WSCA) master pricing agreements – A State agency may purchase computer equipment under WSCA master pricing agreements established with companies such as Compaq Computer Corporation, Hewlett-Packard Company and IBM Corporation. The WSCA master pricing agreements are maintained by and available to State agencies from the DAS procurement website.

The DAS administrative rules require State agencies to purchase goods and services of general use under available DAS master agreements unless approved otherwise by DAS or circumstances meet the exceptions and documentation requirements under the DAS administrative rules contained in IAC [11]-sections 105.4, 105.5(7), 105.10(1)(b) and 105.10(3).

Federal regulations require maintenance of sufficient supporting documentation for the procurement and purchase of goods and services. DAS administrative rules and procedures also require documentation be maintained regarding the competitive process used to select vendors for purchases. If a competitive process is not used to select a vendor for a contract, IWD is required by DAS administrative rules to document appropriate justification for an exemption from a competitive process.

Good business practices dictate a competitive process should be used to select vendors for purchase of goods and services. Competition is always advisable and desirable through either an informal or formal competitive process, as appropriate, even when purchasing goods and services under a DAS master agreement or WSCA master pricing agreement. Competition helps ensure the best value is obtained.

DAS administrative rules require IWD to document receipt of goods and services and require appropriate documentation be maintained to support payments made to vendors. Also, Federal procurement provisions require and good business practices dictate maintenance of contracting documentation as evidence for purchases made. Therefore, it is essential for IWD to maintain copies of contracts, significant related information and payments made to vendors in contract files.

If goods and services are purchased under a WSCA master pricing agreement or a Federal contract, IWD should document what contract was used and why, including contract number, duration, pricing, contract location, purchase order, SOW, approval of receipt and payment documentation. Also, since expired master agreements are removed from the DAS website and are not consistently available from DAS, IWD should maintain electronic or hard copies in contract files so information is readily available for monitoring and subsequent review by management and auditors.

As part of a good contract management system, IWD is 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.

During review of contracts and related expenditures, we determined IWD did not consistently document receipt of goods and services and did not consistently monitor the progress of the contracts and services to be provided. The following sections regarding contracting for goods and services include a summary of contract vendors tested and related contracting and vendor payment concerns.

### **Goods and services purchased by IWD**

For the UI Tax Redesign Project, IWD purchased most goods and services for the Project from vendors under DAS master agreements and WSCA master pricing agreements. Also, IWD entered into some contracts directly with IT consultants for services related to the Project, used a Federal General Services Agency contract to purchase some equipment and purchased some services under existing Targeted Small Business (TSB) contracts.

During fiscal years 2003 through 2009, IWD purchased approximately \$2.3 million of IT consulting services, computer hardware, software and workstation equipment for the Project. The combined total contract amounts, total paid to each vendor and unpaid contract amount as of June 30, 2009 are summarized in **Table 2** for those vendors with contracts over \$8,000.

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**Table 2**

<b>Vendor</b>	<b>Description</b>	<b>Combined total contracts</b>	<b>Total paid to vendor</b>	<b>Unpaid contract amount</b>
ASAP Software Express	Software	\$ 226,686	226,686	-
Canon U.S.A. Inc.	Scanner equipment	15,196	15,196	-
Compaq Computer Corp	Laptops and printers	23,459	23,459	-
Hewlett Packard Co.	Servers and peripherals	264,320	264,320	-
Image TEK Inc.	Scanner equipment	19,521	19,521	-
Midland Systems	Digital backup software	146,379	146,379	-
Milestone Systems Inc.	Computer hardware	39,418	39,418	-
Office Systems Exchange	Modular panel systems	50,162	50,162	-
Software Spectrum Inc.	Software	498,464	498,464	-
CIETC	IT development services	571,754	164,644	407,110
Covansys	Application development training	10,000	10,000	-
DLT Solutions Inc.	Software maintenance and support	30,393	30,393	-
Fligg Corp.	Asbestos removal and clean-up	8,336	8,336	-
Fredrikson & Byron, PA	Contract negotiation services	125,824	125,824	-
Glass and Sons Electric	Electrician services	25,900	15,026	10,874
IBM Corporation	IT consulting and IBM software	73,165	58,292	14,873
Iowa Interactive	Develop and implement UITS	200,000	200,000	-
Kalid Matouk	Painting, repair and remodeling	10,258	10,258	-
Merit Resources Inc.	IT specialist staffing services	28,897	28,897	-
Silicon Plains Tech Inc.	IBM installation and integration	159,400	149,515	9,885
Teksystems	Programming and IT mentoring	373,500	224,175	149,325
Vital Holding Inc.	Enterprise Solution IT services	9,700	9,700	-
<b>Total</b>		<b>\$ 2,910,732</b>	<b>2,318,665</b>	<b>592,067</b>

A more detailed summary of the contracts for goods and services shown in the **Table** is included in **Schedule 2**. The CIETC unpaid contract amount of \$407,110 was never disbursed to CIETC due to the contract not being completed as a result of the investigation of CIETC's operations. Work is still in process under the Teksystems contract which was amended in 2009 to add additional items and has been extended until 2010. Work under the Glass and Sons Electric and Silicon Plains Tech Inc. contracts was completed for IWD at less than the contract maximum cost. The IBM contract is still open in case additional equipment is needed.

Contracting and vendor payment concerns - We reviewed and tested contracts, payment documentation and related activity for the vendors listed in **Table 2** to determine if IWD complied with State laws, administrative rules, procedures and Reed Act requirements. As a result of reviewing and testing the contracts for goods and services, payments and related activities, we identified the following areas of concern regarding contracting:

- IWD was unable to provide documentation showing the process used to select vendors to provide goods and services, including whether a competitive process was used or if only a specific vendor was able to provide the goods or service required.
- Lack of documentation regarding what contract was used to make purchases, where the contract is located, who is responsible for maintenance and monitoring of the contract

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## A Review of the Unemployment Insurance Tax Redesign Project

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and, when applicable, several statements of work were not available. Department of Administrative Services, State Accounting Enterprise (DAS-SAE) procedure 240.102 requires contracts and statements of work be maintained in contract files.

- No evidence of monitoring of contract activity was available when requested from IWD regarding several service providers.
- Some of the required service contract clauses established by DAS administrative rules (section 107.4(a)) such as a monitoring clause, a review clause and an appropriate payment clause, were not included in some contracts.
- IWD purchased \$19,521 of scanner equipment and installation and maintenance services from a TSB vendor without using a competitive process as required by DAS administrative rules. The administrative rules contained in IAC [11]-section 105.4(2) allow purchase from a TSB vendor without further competition for a purchase of up to \$10,000. While IWD staff believes the threshold was \$25,000 when the purchase was made, no support was available from IWD and DAS supporting a \$25,000 threshold.

In addition, we identified several concerns regarding payments made to contract vendors, such as lack of:

- Sufficient supporting documentation for payments made to several vendors.
- Documentation showing appropriate receipt of services and goods.
- Compliance with Federal and State record retention requirements since documentation was not available in several instances regarding payments made to vendors.

More detail regarding contracting and vendor payment concerns identified are summarized for purchase of goods in **Schedule 3** and purchase of services in **Schedule 4**. These schedules identify specific findings applicable to each contract vendor tested and summarize total instances identified regarding each finding.

For example, while it appears the types of goods and services purchased by IWD from the vendors listed in **Table 2** were allowable under the Reed Act requirements, IWD did not have enough documentation available to support 7 payments made to vendors to allow a determination of whether the costs were an allowable use of Reed Act funding.

Following several meetings and requests, IWD provided more examples of documents needed to review whether purchases were appropriate and reasonable under the Reed Act, State laws, administrative rules and procedures. However, the process of obtaining documentation needed to test selected contracts and related payments made to vendors was very difficult and time-consuming and indicates a lack of organized and complete contract files.

IWD also did not consistently comply with requirements contained in applicable Reed Act requirements, the *Code of Iowa*, DAS administrative rules and DAS-SAE procedures. In several instances, it was difficult to determine compliance with the Reed Act requirements, State laws, rules and procedures due to a lack of sufficient documentation.

Findings regarding contracting issues identified are summarized in **FINDING D** and vendor payment concerns identified are summarized in **FINDING E**.

### **DAS-ITE and Iowa Interactive involvement**

As mentioned previously, IWD used the services of Iowa Interactive for development and implementation of UITS. The original contract was entered into between DAS-ITE and Iowa Interactive. Under the contract, IWD and Iowa Interactive signed an addendum for the services to be provided by Iowa Interactive and the billing arrangements.

Under the terms of the contract, Iowa Interactive was to be paid \$2.00 per filing for the first 100,000 filings made through the online UITS application. The maximum contract was set at \$200,000. IWD was to be billed by DAS-ITE, which was then to remit the amount to Iowa Interactive. As of June 30, 2008, a total of \$180,994 had been paid by IWD to DAS-ITE for 90,497 reports filed electronically by employers in Iowa.

Iowa Interactive is required by the DAS-ITE contract and the SOW to submit monthly UITS usage statistics to DAS. According to IWD staff, DAS is to perform monitoring of the lowAccess network services contract and the UITS SOW. DAS-ITE staff we spoke with stated they only performed a general review of Iowa Interactive's work under the UITS SOW completed by DAS. DAS does not complete specific monitoring of each SOW executed by individual State agencies. DAS considers monitoring to be the responsibility of the agency entering into the SOW.

As previously stated, IWD discontinued the contract with Iowa Interactive after Phase 1 as a result of the number of deficiencies and problems identified during testing and implementation of the system. Therefore, IWD did not exercise its option to use Iowa Interactive to provide support and maintenance related to UITS after the first 100,000 reports were filed electronically. Once 100,000 reports were submitted, IWD had the option of continuing to use Iowa Interactive or taking over support and maintenance of the system. During fiscal year 2009, the remaining \$19,006 of the \$200,000 contract maximum was paid to Iowa Interactive.

Currently, while developing the My Iowa UI system, IWD is providing system support and maintenance for UITS using in-house IT staff and IT consultants under contract. Several employers file UI reports and make payments using UITS. Since IWD is now responsible for support and maintenance of UITS, no fees are due to Iowa Interactive.

DAS-ITE billing concerns - We reviewed IWD's compliance with the Reed Act requirements, relevant *Code of Iowa* sections, administrative rules and procedures regarding payments made to DAS-ITE for Iowa Interactive services and related documentation and monitoring. As a result, we determined:

- IWD was not able to provide documented examples of how services provided by Iowa Interactive were monitored while UITS was being developed and implemented. IWD referred us to DAS-ITE for monitoring information. However, according to a representative from DAS-ITE, their responsibilities include a high-level of monitoring of the lowAccess services contract with Iowa Interactive. DAS-ITE staff stated they did not monitor specific activity under the UITS SOW entered into by IWD and Iowa Interactive. Based on monitoring information obtained through interviews and a review of available information, it appears there was a lack of coordinated monitoring by IWD and DAS-ITE of work completed by Iowa Interactive on UITS.
- DAS-ITE billings for Iowa Interactive services and other ITE costs are not sufficiently monitored by IWD. Upon inquiry, Project staff could not describe how IWD monitors DAS-ITE billings and referred us to DAS-ITE staff for information regarding monitoring of the Iowa Interactive billings. IWD staff also could not describe how IWD monitored whether amounts billed to IWD through the eDAS system were appropriate for reports filed online through UITS.
- DAS-ITE staff provided examples of eDAS billings and a summary spreadsheet which track the actual number of reports filed by employers based on invoices submitted by

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Iowa Interactive compared to the 100,000 maximum reports agreed to in the UITS SOW. During our review, we were able to verify the total amount included on the Iowa Interactive invoices agree with the total amount DAS-ITE billed IWD through eDAS.

However, IWD does not monitor whether amounts billed by DAS through eDAS billings agree with monthly usage report amounts. Also, DAS-ITE does not compare usage amounts included on Iowa Interactive invoices to IWD's monthly UITS usage totals. Therefore, incorrect amounts could have been billed by Iowa Interactive and paid by DAS-ITE without being noticed and the \$200,000 contract maximum could have been exceeded without being noticed on a timely basis.

- IWD was not able to provide a written document regarding IWD's decision to not use Iowa Interactive for UITS support and maintenance after the first 100,000 reports were submitted electronically.

Findings regarding DAS-ITE billings are summarized in **FINDING F**.

### **Summary of CIETC involvement and issues identified**

While developing the Project, IWD amended an existing fiscal agent contract with CIETC during fiscal year 2006. The existing contract required CIETC to provide services related to the Workforce Investment Act, which provides training and job placement services to unemployed Iowans. Under the amendment, CIETC was to also provide IT consulting services related to the Project. The amendment to the contract included \$571,754 of additional compensation. According to IWD staff, the amendment was entered into without using a competitive process as required by service contract requirements contained in State law, administrative rules and procedures.

CIETC's primary mission was to administer local training plans, provide services under the local training plan and to operate education, employment or training programs sponsored under State or Federal law. CIETC did not have expertise in IT. When the contract was amended, CIETC hired additional staff to provide the services requested by IWD.

CIETC contract concerns – Based on interviews of IWD staff and review of available documentation, we determined:

- The former Deputy Director of IWD, Jane Barto, did not comply with the State's required competitive process for selection of service providers for the Project. According to UI Services staff we spoke with, IWD consulted with Analysts International Corp., a DAS-ITE pre-qualified vendor, to identify 2 possible IT consultants to work on the Project. However, to avoid the \$50,000 threshold requiring a formal competitive process, including a request for proposal and evaluation of bids, the former Deputy Director of IWD made arrangements with CIETC to hire the 2 IT consultants identified by IWD. She subsequently approved an amendment to the existing fiscal agent contract with CIETC for provision of IT services needed under the Project even though IT services was not one of the types of services typically provided by CIETC. CIETC was approved to provide services under the Workforce Investment Act. These services included providing job training and job placement services for unemployed individuals.

On October 10, 2005, CIETC hired the 2 IT consultants identified previously by IWD as a Project Director at a salary of \$108,000 and a Systems Analyst at a salary of \$85,000 for the Project. Under the fiscal agent contract amendment, IWD paid CIETC for IT services and other related costs billed by CIETC. IWD should have used a competitive process to select and contract with vendors already pre-qualified by DAS-ITE under the ITQ process. IWD should also have considered and evaluated the possibility of directly hiring additional IT staff as State employees since the Project extended over several fiscal years. Because CIETC did not specialize in IT services, but rather training and job placement for

unemployed individuals, it was not reasonable or appropriate for CIETC to be involved in this Project.

- The amendment to the fiscal agent contract was not approved by the former Deputy Director of IWD until 114 days after the effective date of the amendment. This does not comply with DAS-SAE Procedure 240.102 which requires contracts to be signed and distributed to all parties prior to work being started. Also, the amendment does not include some required service contract clauses, including methods to effectively oversee the service provider's compliance, methods to effectively review performance and the amount or basis for paying compensation based on CIETC's performance.
- A total of \$164,644 was paid to CIETC, including charges for salary, administrative expenses and other costs billed to IWD for the Project during fiscal year 2006. Most of the payments made to CIETC were not sufficiently supported, not supported at all or not appropriate. Some of the payments made to CIETC are not appropriate since the items purchased by CIETC were not specifically related to the Project. Findings regarding CIETC involvement concerns are summarized in **FINDING G**.

### **My Iowa UI**

After IWD decided not to continue using Iowa Interactive to further develop UITS into a comprehensive tax system, IWD again contacted the State of Minnesota. As previously stated, IWD staff originally identified Minnesota's system as the best fit for developing a new tax system to meet Iowa's needs.

According to staff we spoke with from the Minnesota Unemployment Insurance Division, Minnesota was allowed to negotiate with Iowa for the use of its system. Although Minnesota was allowed to negotiate, they were not allowed to transfer any of the systems framework to Iowa until after final payment was made to Bearing Point in May 2007. IWD and Minnesota entered into an agreement on August 8, 2007 allowing Iowa to use Minnesota's UI tax and claims system framework as a starting point for developing Iowa's new UI tax and claims system. According to Minnesota UI staff responsible for overseeing the agreement with Iowa, Minnesota does not plan to charge Iowa for the use of the Minnesota coding or for anything else under the agreement.

In January 2008, Minnesota staff notified IWD they had completed its contract and could provide the system framework to Iowa. During February 2008, Minnesota provided the framework to Iowa under the agreement signed in 2007. IWD completed installation of the Minnesota framework during February 2008 and began work on My Iowa UI.

Work on My Iowa UI is primarily being completed by in-house staff with assistance of some IT consulting and staff augmentation service providers under contract with IWD. The initial planned completion date for the new tax system was August 2009. IWD's Strategic Plan for 2008 through 2011 includes a revised target completion date of December 31, 2009.

According to IWD staff we spoke with, most of the computer equipment and software previously purchased during fiscal years 2003 through 2008 while developing the current system will be utilized for the My Iowa UI system.

In reviewing the process used by IWD to develop My Iowa UI, we identified concerns similar to those identified previously for project planning, as follows:

- IWD staff was unable to readily provide planning documentation for the current Project. A summary of staff working on the Project, including contractors, was provided by IWD staff in Gantt chart format during our review.



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- According to IWD staff, a Gantt chart which includes timelines for significant tasks and requirements of My Iowa UI is used to monitor the Project. The Gantt chart includes task name, duration, start and finish dates, resource name, timeline, milestones and progress. However, a comprehensive detailed system software development plan and budget was not available for My Iowa UI when requested.
- IWD staff could not specifically document equipment, software and related costs of items carried forward from UITS to My Iowa UI.
- The agreement with Minnesota states, in part, “Iowa will reimburse Minnesota for the reasonable costs of reproducing and delivery to Iowa of the Deliverables under Minnesota’s contract with Bearing Point.” The agreement did not include a dollar amount or upper limit which could be charged to IWD. According to IWD staff, while negotiating the agreement Minnesota staff stated Iowa would not be charged for use of the system framework. Minnesota included the compensation clause in the contract in case it was necessary to bill Iowa for incidental costs, such as making copies of system documentation. IWD was not billed by Minnesota for use of its system framework or for any incidental costs. According to Minnesota staff we spoke with, Minnesota will not charge Iowa for anything under the agreement.

As mentioned previously, approximately \$17 million was spent by Minnesota to develop and implement a UI tax system similar to Iowa’s Project. IWD has spent at least \$8.6 million to develop and implement UITS and develop the My Iowa UI system through June 2009. Of the approximately \$8.6 million total spent by IWD for the Project through June 2009, approximately \$4.8 million was spent for UITS and approximately \$3.8 million was spent on development of the My Iowa UI system. Additional costs will be incurred prior to implementation of My Iowa UI, but IWD was not able to provide an estimate of costs to complete the Project.

IWD plans to discontinue UITS when the My Iowa UI system is complete and will implement My Iowa UI to replace UITS. We question whether IWD expended the Federal Reed Act funds in the most efficient and economical manner. IWD developed and implemented UITS as a temporary system at a cost of approximately \$4.8 million. This system will be discontinued after My Iowa UI is implemented. IWD was not mandated to proceed with the Project and could have waited to develop and implement a new unemployment insurance tax system after Minnesota’s was completed.

The State would have saved a significant portion of the \$4.8 million if IWD had waited until a clear direction for the Project was identified and the Minnesota system was available before working on the Project. The estimated \$4.8 million is based on costs incurred during fiscal years 2003 through 2007 when UITS was developed and implemented. Additional savings may have occurred during fiscal years 2008 and 2009 if IWD had waited to work on the Project until the Minnesota tax system coding was available. However, we can not determine a precise amount since IWD did not maintain records which separate costs for continued development of UITS and costs related to development of My Iowa UI.

To ensure successful completion of the Project and compliance with Reed Act requirements, State laws, administrative rules and procedures, the findings and recommendations summarized in the Findings and Recommendations section should be considered and implemented by IWD.

## **Findings and Recommendations**

We reviewed the Project to determine whether IWD appropriately planned and monitored the Project. We also determined whether Project expenditures were reasonable and appropriate and complied with relevant requirements of the Federal Reed Act, the *Code of Iowa* and DAS administrative rules and procedures. As a result, we identified certain findings and recommendations regarding the Project which should be considered by the Governor, Members of the General Assembly and IWD. Potential non-compliance with requirements of the Federal Reed Act will be included in the State's Single Audit Report for the year ended June 30, 2009.

### **FINDING A – Project planning needs improvement**

Due to a lack of overall consistent comprehensive planning for the Project since inception, it is taking longer and costing more than necessary to complete. Also, the involvement of ITSC, DAS-ITE and Iowa Interactive and changes in IWD staff had a detrimental impact on continuity of operations and planning. An exact total cost of UITS which may have been avoided had IWD waited until the State of Minnesota's system coding was received could not be determined since IWD did not track the costs separately.

However, a significant portion of the approximately \$4.8 million spent during fiscal years 2003 through 2007 could have been avoided since the State entered into an agreement with the State of Minnesota on August 8, 2007. Purchases summarized in **Schedule 1**, such as office equipment, IT equipment and software totaling approximately \$883,000 during fiscal years 2003 through 2007, may have been necessary for both UITS and My Iowa UI.

Also, IWD only had limited planning documentation available for review, including, but not limited to, planning documents from 2001 through fiscal year 2008, such as the initial strategic plan, a comprehensive system software development plan and a comprehensive system software development plan for the new UI tax system being developed using Minnesota's coding. Most of the planning information obtained for review was obtained through interviews of IWD staff and subsequent written responses completed by IWD, along with the Project timeline summarized in **Appendix A**.

**Recommendation** – For future projects, IWD 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 for the Project.
- Maintain all significant documentation related to project planning and system monitoring, including, but not limited to, a strategic plan, contract considerations, problems encountered and significant decisions made throughout the project.

### **FINDING B – Project budgeting needs improvement**

IWD staff did not establish a budget and did not monitor actual expenditures versus budgeted expenditures during fiscal years 2003 through 2008 for the Project. Also, IWD staff was not able to provide a budget or an estimate of total Project costs. IWD staff we spoke with stated there was \$20 million available under the State appropriation from the Reed Act funds and the total cost of the Project will be less than \$20 million. After several requests, IWD prepared a budget based on fiscal year 2008 information. IWD staff we spoke with mentioned Project expenditures have been tracked by IWD Financial Management staff during fiscal years 2006 through 2008, but no budget information was available prior to fiscal year 2006.

While IWD Financial Management staff established a budget at some point during the Project, it was not shared with and used by Project staff to control costs incurred under the Project. After multiple requests, IWD Project staff only provided a few examples of budget spreadsheets prepared by IWD Financial Management staff. The IWD Project staff mentioned the budget examples provided are the best and only information they have.

It is possible more costs than necessary may be incurred and project planning may not be as effective as it could be since a Project budget is not in place to help Project staff better manage, monitor and control Project costs. Therefore, IWD did not have sufficient budgetary control over Project costs.

**Recommendation – IWD should establish:**

- An annual and cumulative line item Project budget and monitor the budget monthly. The total annual and cumulative Project expenditures should be compared to budgeted line items each month and at the end of each fiscal year to better monitor and control Project costs.
- A budget line item, such as “unobligated funds carried forward to subsequent fiscal years”, rather than including the carry forward total in other supplies.
- A total estimated cost to complete the Project from inception through anticipated completion. As possible, the estimated cost to complete the entire Project should be broken down between pre-UIITS, UIITS and the new system being developed based on Minnesota’s system coding.

**FINDING C – Project reporting needs to be expanded and improved**

We reviewed Federal and State reporting requirements regarding Reed Act funds spent by IWD for the Project. As a result, we identified:

- While IWD is reporting required information regarding the expenditure of Reed Act funds, the Federal DOL reporting requirements do not include enough specific reporting to allow the DOL and State officials to be sufficiently informed of IWD’s use of funds received for the Project. The Federal reporting requirements regarding Reed Act funds only include reporting total activity each month.
- The State has not established any additional reporting requirements regarding use of Reed Act funds for the Project. Currently, only limited information is reported by IWD in the Department’s annual reports and performance reports regarding overall accomplishments of the Project. The information reported does not include enough detail to allow effective monitoring and assessment of appropriateness of the use of Reed Act funds and specific progress made by IWD for the Project.

**Recommendation – IWD, in consultation with the Governor’s Office and the General Assembly, should establish quarterly reporting requirements for the Project regarding use of funds as related to the line item project budget, progress, accomplishments, status, planned timeline for completion and anticipated total cost of the Project. Implementation of this recommendation will improve accountability for the \$20 million of Reed Act funds appropriated for automation and technology for the unemployment insurance tax and claims system.**

**FINDING D – Contracting concerns identified**

We reviewed IWD’s compliance with the Reed Act requirements, relevant *Code of Iowa* sections and DAS administrative rules and procedures regarding contracting for goods and services and related monitoring. As a result, we identified several concerns regarding contracting, such as:

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## A Review of the Unemployment Insurance Tax Redesign Project

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- Lack of documentation of the process used to select vendors to provide goods and services under contract.
- Lack of documentation regarding what contract was used to make purchases, where the contract is located, who is responsible for maintenance and monitoring of the contract and, when applicable, several statements of work were not available.
- No evidence of monitoring of contract activity was available when requested from IWD for several vendors selected for review.
- Required contract clauses were not included in some service contracts, such as a monitoring clause, review clause and an appropriate payment clause.

Improved organization and maintenance of contracts and related documents would help IWD improve efficiency and effectiveness of contract monitoring, expedite any subsequent reviews and help ensure consistent compliance with applicable Reed Act requirements, State laws, administrative rules and procedures.

**Recommendation** – In accordance with applicable administrative rules, policies and regulations regarding contracting, IWD should consistently:

- Document decisions made while considering and selecting vendors for contracts for provision of services and/or goods and maintain relevant documentation to clearly demonstrate how and why each vendor 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 vendor was selected, including applicable laws, administrative rules and procedures and required additional documentation.
- Include contract maximums and maximum hourly rates which may be billed by vendors as appropriate in future service contracts.
- Ensure service contracts are executed for all services agreed to as required by DAS administrative rules and include all required service contract clauses.
- Maintain a copy of all contracts and related documents, such as addendums, amendments, statements of work and related DAS master agreements and WSCA master price agreements.
- Maintain evidence of monitoring and evaluation of goods and services received.
- Maintain reports completed by vendors when reporting is required by contracts.

### **FINDING E – Contractor payment concerns identified**

We also reviewed IWD’s compliance with the Reed Act requirements, relevant *Code of Iowa* sections, administrative rules and procedures regarding selected payments made to contractors and related documentation and monitoring. As a result, we identified the following concerns:

- Lack of sufficient supporting documentation for payments made to several vendors.
- Lack of documentation showing appropriate receipt of services and goods.
- Lack of compliance with Federal 3-year and State 5-year record retention requirements since documentation was not available in several instances regarding payments made to vendors.
- While it appears the types of goods and services purchased by IWD were allowable for most purchases, based on available documentation and State accounting system records, IWD did not maintain enough supporting documentation for 3 payments made to vendors

to allow a determination of whether the costs were actually allowable under the Reed Act requirements.

As a result, IWD did not consistently comply with Federal Reed Act requirements, the *Code of Iowa*, DAS administrative rules and DAS-SAE procedures. For example, for instances identified where IWD did not maintain sufficient support, a determination of whether the Reed Act and State laws, rules and procedures were complied with could not be made.

**Recommendation** – IWD should:

- Monitor whether amounts billed by service providers are in accordance with the payment terms of contracts.
- Implement procedures to ensure sufficiently detailed and itemized information is received from vendors on invoices, cost proposals and quotes to allow appropriate monitoring of whether intended goods and services are received at agreed upon quantities, prices and quality/specifications.
- Maintain all supporting documentation for payments made to vendors, including copies of all invoices to evidence purchase of appropriate items, and maintain evidence and approval of receipt of appropriate goods and services during approved contract periods.

**FINDING F – DAS-ITE billings not sufficiently monitored**

We reviewed IWD’s compliance with the Reed Act requirements, relevant *Code of Iowa* sections, administrative rules and procedures regarding payments made to DAS-ITE for Iowa Interactive services and related documentation and monitoring. As a result, we identified:

- IWD was not able to provide documented examples of how services provided by Iowa Interactive were monitored while UITS was being developed and implemented. Based on monitoring information obtained through interviews and a review of available information, it appears there was a lack of coordinated monitoring by IWD and DAS-ITE of work completed by Iowa Interactive on UITS.
- DAS-ITE billings for Iowa Interactive services and other DAS-ITE costs were not sufficiently monitored by IWD.
- DAS-ITE staff was able to provide examples of eDAS billings and a summary spreadsheet which tracks the actual number of reports filed based on invoices submitted by Iowa Interactive compared to the 100,000 maximum reports agreed to in the UITS SOW. However, IWD did not monitor whether amounts billed by DAS through eDAS billings agreed with monthly usage report amounts.
- IWD was not able to provide a written document regarding IWD’s election to not use Iowa Interactive for UITS support and maintenance after the first 100,000 reports were submitted electronically.

**Recommendation** – IWD should:

- Improve monitoring of services provided by service providers and monitoring of billings received as related to the Iowa Interactive SOW for UITS.
- Maintain complete and well-organized contract files, including documented examples of monitoring completed by IWD and IWD’s evaluation of services received.
- Coordinate and share UITS usage information with DAS-ITE and ensure IWD and DAS staff compare usage report amounts to amounts billed by Iowa Interactive on invoices.

**FINDING G – Contract with CIETC**

We reviewed CIETC’s involvement in the Project for appropriateness and compliance with applicable Reed Act requirements, State laws and DAS administrative rules and procedures. As a result, we identified:

- The former Deputy Director of IWD did not comply with the State’s required competitive process for selection of service providers by arranging for CIETC to hire 2 IT consultants and then approving an amendment to the existing fiscal agent contract with CIETC for IWD to use CIETC for IT services for the Project. IWD’s amendment under the fiscal agent contract with CIETC and the use of CIETC for IT services for the Project were not appropriate.
- The amendment to the fiscal agent contract was not approved by the former Deputy Director of IWD until 114 days after the effective date of the amendment. State contracting procedures require contracts to be signed prior to any service being performed. Also, the amendment does not include some required service contract clauses.
- A total of \$164,644 was paid to CIETC for IT services, administrative expenses and other costs billed to IWD for the Project during fiscal year 2006. Most of the payments made to CIETC were not sufficiently supported, were not supported at all or were not allowable under the Reed Act requirements. The problems identified during this review may have continued without being noticed if other concerns regarding CIETC had not been previously included in a special report on CIETC issued by the Office of Auditor of State on March 31, 2006.

**Recommendation** – IWD should:

- Improve oversight and monitoring of contractual relationships entered into and related payments made to contractors to ensure compliance with applicable Reed Act requirements and service contracting laws, administrative rules and procedures.
- Not pay vendors unless sufficiently detailed and appropriate support is received, reviewed and approved by IWD.

**A Review of the Unemployment Insurance  
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## **Schedules**



A Review of the Unemployment Insurance Tax Redesign Project

Expenditures by Fiscal Year by Class Code Description  
Fiscal Years 2003 through 2009

<b>Description</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Personal Services	\$ 294,577	480,414	193,937
In State Travel	-	-	-
Out Of State Travel	-	-	1,548
Office Supplies	3,040	2,017	573
Facility Maintenance Supplies	328	-	-
Other Supplies	-	-	-
Printing and Binding	-	-	-
Postage	-	-	84
Communications	2,625	3,831	4,209
Rentals	-	-	-
Utilities	3,372	3,775	2,914
Professional and Scientific Services	147,561	13,484	18,576
Outside Services	8,671	34,872	363
Intra-State Transfers	-	-	-
Outside Repairs/Service	1,344	2,390	1,668
Reimbursements To Other Agency	104	136	7,259
ITE Reimbursements	-	-	812
Workers Comp Reimbursements	1,691	2,704	-
IT Outside Services	-	-	-
Equipment	-	-	-
Office Equipment	8,908	-	-
Equipment-Non Inventory	17,582	819	-
Data Processing, Inventory	78,851	-	-
Data Processing, Non-Inventory	265,425	64,839	76,468
IT Equipment and Software	-	-	-
Other Expenses and Obligations	34,420	52,560	52,936
Aid To Individuals	-	-	-
Total	<u>\$ 868,499</u>	<u>661,841</u>	<u>361,347</u>

<b>Fiscal Year</b>				
<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Total</b>
776,569	674,526	915,666	1,044,147	4,379,836
371	3,496	2,509	367	6,743
2,155	865	1,164	-	5,732
1,898	4,388	8,101	3,102	23,119
-	-	-	-	328
398	39	262	113	812
-	-	445	-	445
42	27	74	53	280
9,883	13,258	17,468	10,929	62,203
-	-	-	500	500
1,084	943	3,797	3,084	18,969
107,248	367	-	-	287,236
175,987	63	408	472	220,836
-	231	595	583	1,409
24,686	3,256	5,635	-	38,979
7,202	3,889	12,800	12,552	43,942
-	30,569	150,425	43,878	225,684
-	-	-	-	4,395
22,900	31,857	286,078	806,904	1,147,739
4,200	-	-	-	4,200
81,127	-	9,080	-	99,115
3,192	449	-	495	22,537
-	-	-	-	78,851
-	-	-	-	406,732
91,823	675,040	64,644	164,378	995,885
97,460	78,513	103,282	119,659	538,830
525	-	-	-	525
<b>1,408,750</b>	<b>1,521,776</b>	<b>1,582,433</b>	<b>2,211,216</b>	<b>8,615,862</b>

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## A Review of the Unemployment Insurance Tax Redesign Project

### Contracts and Contractor Payments Summary for Contract Vendors Tested Fiscal Years 2003 through 2009

Vendor	Fiscal Year	Contract type	Contract purpose, including SOW's and amendments
Canon U.S.A. Inc.	2003	Federal GSA	Open market pricing for scanner equipment and annual maintenance
ASAP Software Express	2003	DAS	Commercial over-the-counter software to State agencies at a discount
Image TEK Inc.	2003	DAS/TSB	Scanner, annual hardware maintenance, installation services and related consumable items
Office Systems Exchange	2003 and 2006	DAS	Modular panel system items for workstations, including chairs, lateral files, shelf units, lights and tackboard
Silicon Plains Tech Inc.	2003	DAS/ITQ process	Installation services for IBM Content Manager for multi-platforms, IBM OnDemand, EIP Advanced Workflow and Kofax Ascent Capture and to integrate Micrographics System and 8 hours of IBM OnDemand training
Compaq Computer Corp	2003	WSCA/DAS	Computer hardware items and accessories, such as laptops, memory, cases and printers
Hewlett Packard Co.	2003 and 2007	WSCA/DAS	Computer hardware and peripherals for microcomputers, mini and main-frame computers, accessories, supplies and HP server blades, HP SAN server storage for all environments and software and hardware to connect SAN EVA server switches, HP Color LaserJet 4700dn printer and related computer hardware consulting
Merit Resources Inc.	2004	DAS-HRE	Information Technology Specialist staffing services
Midland Systems	2004 and 2005	DAS	Software for digital backup recovery study and renewal of various IBM Passport Advantage annual software maintenance licenses through MSI in accordance with IBM compliance requirements
Fredrikson & Byron, PA	2005 and 2006	Attorney General on behalf of IWD	Special Counsel to represent IWD in negotiating with Covansys, subsequent discussions with Bearing Point and preparing contracts expected to result from negotiations for the Tax Redesign project
IBM Corporation	2006 and 2007	WSCA/DAS	Software installation and configuration services, custom LDAP exit for OnDemand software and IBM rational software use licenses and maintenance and IT consulting services to assess IWD's current IP390 environment for migration to IBM Content Manager and OnDemand for multplatforms, as agreed to in SOW's
Covansys	2006	IWD	Training for the IWD Tax Redesign Team on application development methodology
Glass & Sons Electric	2006	DAS	Electrician services for PC Lab, 14 workstations, conference area, printing area and relocation of mailroom
Fligg Corp.	2006	DAS	Hazardous materials and waste services regarding removal of asbestos in IWD Tax Redesign facilities
Kalid Matouk	2006	DAS/TSB	Painting, maintenance, repair and remodeling services for Tax Redesign facilities

Original contract or SOW duration	Contract extension/ amended duration	Number of amendments or extensions	Agreement Total	Amendment total	Final contract total	Total paid to vendor as of June 30, 2009	Unpaid contract amount
Not available	-	-	\$ 15,196	-	15,196	15,196	-
Not available	-	-	226,686	-	226,686	226,686	-
Not available	-	-	19,521	-	19,521	19,521	-
Not available	-	-	50,162	-	50,162	50,162	-
January 6, 2003 through March 19, 2003	April 2, 2003 through June 28, 2003	3	94,600	64,800	159,400	149,515	9,885
September 3, 1999 through September 2, 2002	September 3, 2002 through September 2, 2004	1	23,459	-	23,459	23,459	-
September 3, 1999 through August 31, 2009	-	-	264,320	-	264,320	264,320	-
October 17, 2003 through March 4, 2004	-	-	28,897	-	28,897	28,897	-
March 1, 2003 through August 29, 2008	August 30 and 31, 2008	1	146,379	-	146,379	146,379	-
May 31, 2005 through May 31, 2006	-	-	125,824	-	125,824	125,824	-
January 1, 2005 through December 31, 2006	-	-	73,165	-	73,165	58,292	14,873
October 24, 2005 through October 31, 2005	-	-	10,000	-	10,000	10,000	-
Not available	-	1	25,400	500	25,900	15,026	10,874
Not available	-	-	8,336	-	8,336	8,336	-
Not available	-	-	10,258	-	10,258	10,258	-

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A Review of the Unemployment Insurance Tax Redesign Project

Contracts and Contractor Payments Summary for Contract Vendors Tested  
Fiscal Years 2003 through 2009

Vendor	Fiscal Year	Contract type	Contract purpose, including SOW's and amendments
DLT Solutions Inc.	2007	DAS	Software maintenance and support services for Red Hat Enterprise Linux AS Standard and Red Hat Enterprise Linux ES Standard
Milestone Systems Inc.	2007	IWD	Computer hardware and peripherals for mini and main frame and hardware implementation services, including installation, computer support services and warranties for F5 BIG-IP LTM 1500, two BIG-IP memory upgrades and BIG-IP related to systems that support the Minnesota Tax system environment (i.e., the new tax system)
Software Spectrum Inc.	2007 and 2008	DAS	Discounted commercial over-the-counter software, including Adobe, McAfee Active Virus Defense, IPLA Websphere Application Server Network with maintenance, IPLA DB2 Connect Application Server with maintenance and IPLA CICS Transaction Gateway
Vital Holding Inc.	2007	DAS/ITQ process	IT installation services related to the Enterprise Solution
Teksystems	2008	DAS/ITQ process	IT application development team assistance from a Senior JAVA/J2EE programmer and mentoring services for JAVA/J2EE applications
Iowa Interactive	2007	DAS	Develop and implement UITS as agreed under SOW number 5 entered into by IWD under the DAS IowaAccess contract
CIETC	2006	IWD	IT services for the Tax Redesign project, as agreed to under an amendment to the existing IWD fiscal agent contract
Total			

Contract type description

WSCA/DAS - Purchased by IWD under a master pricing agreement entered into by the Western States

Contracting Alliance with the vendor, which is available through DAS

Federal GSA - Purchased under a Federal General Services Administration contract

DAS/TSB - Purchased under a DAS master agreement entered into with a certified Targeted Small Business

DAS - Purchased under a master agreement entered into by DAS with the vendor

IWD - IWD directly entered into a contract or SOW with the vendor

Original contract or SOW duration	Contract extension/ amended duration	Number of amendments or extensions	Agreement Total	Amendment total	Final contract total	Total paid to vendor as of June 30, 2009	Unpaid contract amount
August 11, 2006 through August 10, 2009	-	-	30,393	-	30,393	30,393	-
September 13, 2006 through December 31, 2006	-	-	39,418	-	39,418	39,418	-
February 1, 2006 through January 30, 2009	February 1, 2009 through January 30, 2010	1	438,448	60,016	498,464	498,464	-
May 5, 2004 through May 30, 2009	-	-	9,700	-	9,700	9,700	-
August 6, 2007 through November 9, 2007	November 10, 2007 through December 31, 2009	2	40,500	333,000	373,500	224,175	149,325
July 26, 2006 through October 9, 2006	October 10, 2006 until maximum is \$200,000 is met.	1	200,000	-	200,000	200,000	-
July 1, 2005 through June 30, 2006	-	-	571,754	-	571,754	164,644	407,110
		10	\$ 2,452,416	458,316	2,910,732	2,318,665	592,067

**A Review of the Unemployment Insurance  
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A Review of the Unemployment Insurance Tax Redesign Project

Summary of Findings Regarding Purchase of Goods  
Fiscal Years 2003 through 2009

Vendor	Documentation not available						Non-compliance with Federal and State record retention requirements
	Why and how the vendor was selected	Evidence a competitive process was used	SOW or quote	Itemized invoice	Approval of receipt of goods	To support the payment	
Canon U.S.A. Inc.	X	X	-	-	-	-	-
ASAP Software Express*	X	-	-	-	-	-	-
Image TEK Inc.	X	X	-	-	1 of 2	-	-
Office Systems Exchange	X	X	X	1 of 2	X	1 of 2	X
Compaq Computer Corp	X	X	X	-	-	-	-
Hewlett Packard Co.*	X	-	-	1 of 7	X	1 of 7	X
Midland Systems	-	-	X	-	2 of 3	2 of 3	2
Milestone Systems Inc.	-	-	-	-	-	-	-
Software Spectrum Inc.*	X	-	-	-	-	-	-
<b>Total</b>	<b>7</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>5</b>	<b>4</b>	<b>4</b>

X - Finding identified

\* - State agencies are required by DAS to purchase from the vendor unless the agency can prove another alternative is more cost effective.



A Review of the Unemployment Insurance Tax Redesign Project

Contracts and Contractor Payments Summary for Contract Vendors Tested  
Fiscal Years 2003 through 2009

Vendor	Documentation not available								
	Why and how the vendor was selected	Evidence a competitive process was used	SOW or quote	Itemized invoice	Approval of receipt of services	Monitoring of services	Evaluation of services	To support payment coding	To support the payment
Silicon Plains Tech Inc.	X	X	-	1 of 4	4 of 4	X	-	-	2 of 4
Merit Resources Inc.	-	-	-	-	-	-	-	1 of 10	1 of 10
Fredrikson & Byron, PA	-	-	-	-	-	-	-	-	-
IBM Corporation	-	-	1 of 2	1 of 7	-	X	X	-	-
Covansys	X	X	-	-	-	-	-	-	-
Glass and Sons Electric	X	X	-	-	-	X	-	-	-
Fligg Corp/Controlled Asbestos	X	X	-	-	-	-	-	-	-
Kalid Matouk	X	X	X	-	-	-	-	-	-
DLT Solutions Inc.	-	-	X	-	-	X	X	-	-
Vital Holding Inc.	-	-	-	-	-	X	X	-	-
Teksystems	X	X	-	-	-	-	-	-	-
<b>Total</b>	<b>6</b>	<b>6</b>	<b>3</b>	<b>2</b>	<b>4</b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>3</b>

X - Finding identified

Non-compliance with Federal and State record retention requirements	Amount billed is not in accordance with payment terms	Work started prior to contract approval	Required service contract clauses not documented			
			Contract maximum or payment	Review	Monitoring	Insurance
2 of 4	-	-	-	X	X	-
1 of 10	-	-	-	-	-	-
-	1 of 10	-	X	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	X	X	X	X
-	-	-	X	X	X	X
-	-	-	-	-	-	-
-	-	X	-	-	-	-
3	1	1	3	3	3	2


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A Review of the Unemployment Insurance  
Tax Redesign Project

Staff

This review was conducted by:

Annette K. Campbell, CPA, Director  
James S. Cunningham, CPA, Senior Auditor II  
Donald J. Lewis, CPA, Senior Auditor  
Mark C. Moglestad, CPA, Senior Auditor

  
Tamera S. Kusian, CPA  
Deputy Auditor of State

## **Appendices**

A Review of the Unemployment Insurance Tax Redesign Project

Tax Redesign Timeline

CY2001

- ITSC facilitated and provided Tax Redesign Strategic Plan
- Completed State of Iowa Funding Application for FY03 for Tax Redesign project
- Permanent project staff hired—Bonnie Hammer, Rita Coxe, RJ Hellstern (September)

CY2002

- Held 19 employer roundtable sessions
- Held employer focus group session
- ITSC facilitated business process reengineering and:
  - Provided High Level Cost Analysis and Schedule Estimates
  - Completed “As Is” Model
  - Began Concept of Operations document
  - Developed “To Be” model
- Permanent staff additions: Gary Lange, Michelle Roovaart, Carol Tanner
- Received \$82,395,262 from Reed Act distribution (March, appropriated by 79<sup>th</sup> G.A., HF2627)

CY2003

- Appropriation of \$20 million Reed Act funds for new UI tax and benefits system (May, 80<sup>th</sup> G.A., SF458)
- With ITSC support:
  - Completed Concept of Operations document
  - Developed Vision document
  - Began discussions of System Architecture
  - Worked on Glossary project
  - Began Supplemental System Specifications (system requirements) document
  - Began Use Case development
- Temporary to permanent staff additions: Don Bailey, Sheryl Lewis (hired through ITQ; employees of Merit Resources)

CY2004

- With ITSC support:
  - Developed Quality Assurance Plan document
  - Finalized System Architecture document
  - Finalized Use Cases
  - With AG's office and DAS-GSE review: wrote RFP to acquire 2 vendors (one for system development, one for IV&V)
  - Developed bid proposal evaluation criteria & provided training to evaluators
- Data migration tasks, documentation for DB2 files
- Forms review
- Released RFP (October)
- Permanent staff reduction: Don Bailey

A Review of the Unemployment Insurance Tax Redesign Project

Tax Redesign Timeline

CY2005

- With ITSC and DAS-GSE oversight to ensure objectivity—reviewed proposals (Feb-May)
- Awarded contract to Covansys, began negotiations using outside counsel (June)
- Team training—project management; RUP
- Negotiations with Covansys ceased (November)
- Had limited discussions with #2 vendor (Bearing Point—LoL issue)
- Began consideration of Minnesota system; code not available until full/final payment (vendor—Bearing Point)
- Permanent staff additions: Erich Grubert (August), Sharon Anderson, Don Chambers, Jim Clark, Jodi Douglas, JoAnn Goode, Todd McGee (all October), Melana Hammer (December)
- Temporary staff additions: William Wilson (worked one month), Scott Rowe (July), Kiran Ghanta (September), Gordon Conrad (worked two months) (hired through ITQ; employees of Analysts International and others, then CIETC beginning October)
- Permanent staff reduction: Carol Tanner

CY2006

- Team training—Microsoft Office Project
- High level review of Minnesota use cases, did fit/gap analysis with Iowa's
- Visited Minnesota to see their system
- Drafted 2 RFP's as options for future tax system development:
  - o Implement Minnesota system
  - o Develop bare bones system ourselves
- Met with other agency IT directors (May)
- Signed addendum 3 to DAS-ITE/IWD SLA, in accordance with Iowa Access Network Services Agreement between DAS-ITE and Iowa Interactive, Iowa Interactive will build UITS (July)
- Staff departures: Scott Rowe (April), Todd McGee (April), Kiran Ghanta (May), Bonnie Hammer (September), Jim Clark (December), Melana Hammond (December)
- 22 Public presentations re: UITS

CY2007

- Launched UITS (January)
- UITS enhancements and customer support
- 33 Public presentations re: UITS
- Minnesota made final payment to their vendor (May)
- Signed sub-license to modify MN system (August)
- Began in-depth analysis of MN system
- Accepted as complete work performed to date on UITS by DAS-ITE/Iowa Interactive (June)
- Received MN code (December)
- Implemented scheduled payment in UITS (December)
- Temporary staff addition: Sridhar, to support UITS (August) (hired through ITQ, employee of Tek Systems)
- Permanent staff additions: Brandie Glasnapp, Liz Pruisner, Lori Wallerer, Kim McCormick, Rebecca Noling, Susan Johannsen (June)

A Review of the Unemployment Insurance Tax Redesign Project

Tax Redesign Timeline

**CY2008**

- Completed installation of MN code (February)
- MN use case analysis continues
- Temporary staff additions: Steve, Abdul, Roger (February) (hired through ITQ, employees of Alliance Technologies, Quality Consulting, and American Computer Services)
- Permanent staff reduction: Michelle Roovaart (March)
- Permanent staff addition: Doni Gould (April)





**Appendix C**

A Review of the Unemployment Insurance Tax Redesign Project

IWD Tax Redesign Draft Fiscal Year 2007 Budget

<p><b>% of Year</b> <b>91.57%</b></p> <p><b>DRAFT FY08 Budget</b></p>	<p><b>IOWA WORKFORCE DEVELOPMENT TAX REDESIGN PHASE I &amp; II SFY 2008</b></p>	<p><b>6/16/08</b></p>	<p><b>91.57%</b></p>		
	<p><b>CODE</b></p>	<p><b>FY08 Budget</b></p>	<p><b>FY08 Expenses</b></p>	<p><b>Amount Expended</b></p>	
<p><b>UARD</b></p>					
	SALARYFRINGE	101	\$979,835	\$833,505	85%
	INSTATE TRAVEL	202	\$7,000	\$2,399	34%
	OUT OF STATE TRAVEL	205	\$10,000	\$673	7%
	SUPPLIES	301	\$7,000	\$5,938	85%
	FACILITY MAINTENANCE	302	\$0	\$0	0%
	OTHER SUPPLIES	308	\$8,388,842	\$234	0%
	PRINT & BINDING	309	\$5,000	\$445	9%
	POSTAGE	313	\$5,000	\$38	1%
	COMMUNICATIONS	401	\$32,000	\$15,811	49%
	UTILITIES	403	\$1,000	\$2,906	291%
	PROFESSIONAL SVS	405	\$3,200,000	\$0	0%
	OUTSIDE SERVICES	406	\$1,000	\$35	3%
	INTRA TRANSFERS	407	\$1,500	\$501	33%
	OUTSIDE REPAIRS	409	\$5,500	\$5,635	102%
	IDOP FEES-Includes DAS Trainin	414	\$15,000	\$10,409	69%
	PACE BILLINGS	416	\$155,960	\$134,734	86%
	IT OUTSIDE SERVICES	418	\$50,000	\$159,862	320%
	EQUIPMENT	501	\$200,000	\$0	0%
	OFFICE EQUIPMENT/Moving Ex	502	\$5,000	\$0	0%
	EQUIPMENT NON-INVENTORY	503	\$5,000	\$0	0%
	DP EQUIPMENT & SOFTWARE	510	\$1,500,000	\$63,174	4%
	INDIRECT COSTS	602	\$125,419	\$106,689	85%
			<b>\$14,700,055</b>	<b>\$1,342,987</b>	<b>9%</b>