



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 16, 2020

Mr. David Roederer, Director
Iowa Department of Management
1007 East Grand Avenue
Des Moines, Iowa 50319

Re: State of Iowa's Uses of Coronavirus Relief Fund Payment

Dear Mr. Roederer:

We would like to thank you and other State of Iowa representatives for meeting with our office in August 2020 to discuss a matter that had come to our attention regarding the State of Iowa's use of its Coronavirus Relief Fund payment received from the Department of the Treasury (Treasury) under Title VI of the Social Security Act, as amended by Title V of Division A of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act). At that time, our office made inquiries regarding the use of Coronavirus Relief Fund proceeds to make payments on a \$20.1 million¹ contract with Workday, Inc. (Workday), a computer system used for accounting and human resources. As explained to us in our August 2020 meeting, Workday is to replace a legacy mainframe system. We also consulted with the Office of the Auditor of the State of Iowa regarding this contract.

We reviewed the Workday contract-related information provided to determine whether the computer system upgrade is an allowable expenditure under the "Uses of Funds" requirements of Section 601(d) under Title VI, as amended by Title V of the CARES Act. Specifically, the CARES Act provides that payments from the Fund may only be used to cover costs that—

- are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);
- were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government; and
- were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.

Based on our review, we determined that the contract with Workday is not an allowable expenditure as it does not meet the CARES Act criteria. The contract

¹ The actual amount is \$20,105,015 in the contract between Workday, Inc. and Iowa's Office of the Chief Information Officer, dated October 30, 2019.

with Workday for a computer system upgrade was already planned and budgeted for prior to the CARES Act, and as such, does not meet the requirement that “costs were not accounted for in the most recently approved budget as of March 27, 2020.” Specifically, the contract was signed on October 30, 2019, with a contract term of October 31, 2019 through June 30, 2024. The contract included scheduled payments totaling approximately \$20.1 million over a five year period with one payment of \$2.8 million paid on the effective date of the contract of October 30, 2019. According to a representative Office of the Chief Information Officer (OCIO), the contract “was subject to continued availability of funding for a multi-phase implementation of Workday. Some expenses were paid under the contract with other state funds.”

Treasury provided clarification of budgeted costs in its ***Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments (Updated September 2, 2020)*** (Guidance):

The CARES Act also requires that payments be used only to cover costs that were not accounted for in the budget most recently approved as of March 27, 2020. A cost meets this requirement if either (a) the cost cannot lawfully be funded using a line item, allotment, or allocation within that budget or (b) the cost is for a substantially different use from any expected use of funds in such a line item, allotment, or allocation.

In addition, the system upgrade does not meet the “necessary expenditure incurred due to the public health emergency” requirement for the uses of funds. According to the OCIO representative, “Workday will play an integral role in the State’s response to COVID-19 and the demands the pandemic has placed on state government. This upgrade replaces legacy mainframe human resources and financial systems that cannot be easily accessed remotely with a cloud-based system and provides a new cloud-based planning and budget tool. With this upgrade, the State of Iowa will be able to act quickly to assist essential government employees, giving them flexibility in a number of ways, such as requesting COVID-related hardship help, easier ways to request Family and Medical Leave Act leave types, and automate processes for donating leave, and borrowing leave. Workday will also bring positive changes to budget forecasting models that allow for better managing of COVID-19 impacts on state government operations.” While the new and modern Workday system may provide additional functionality, these upgrades are not necessary to address the public health emergency and were already planned before the COVID-19 pandemic outbreak. A reasonable alternative is the continued use of Iowa’s current legacy system. As such, funding the Workday contract with Coronavirus Relief Fund proceeds is not a reasonable, allowable use of funds. Treasury clarified the necessary expenditures in its Guidance document as follows:

Necessary expenditures incurred due to the public health emergency

The requirement that expenditures be incurred “due to” the public health emergency means that expenditures must be used for actions taken to respond to the public health emergency. These may include expenditures incurred to allow the State, territorial, local, or Tribal government to respond directly to the emergency, such as by addressing medical or public health needs, as well as expenditures incurred to respond to second-order effects of the emergency, such as by providing economic support to those suffering from employment or business interruptions due to COVID-19-related business closures. Funds may not be used to fill shortfalls in government revenue to cover expenditures that would not otherwise qualify under the statute. Although a broad range of uses is allowed, revenue replacement is not a permissible use of Fund payments.

According to Iowa’s OCIO representative, Coronavirus Relief Fund proceeds were used to pay for some contract expenses that were incurred after March 1, 2020, and additional funds are expected to be used for expenses that will be incurred before December 30, 2020. Amounts equal to the payments issued on the contract with Workday using Iowa’s Coronavirus Relief Fund proceeds should be returned to Iowa’s Coronavirus Relief Fund for eligible uses. Furthermore, additional Coronavirus Relief Fund proceeds should not be used to make payments on this contract. We request management’s response to this letter by October 26, 2020. The response should include Iowa’s corrective action plan and the estimated date of completion.

Sincerely,



Richard K. Delmar, Deputy Inspector General
Department of the Treasury

cc: Daniel J. Kowalski, Counselor to the Secretary, Department of the Treasury
Rob Sand, Auditor of State, State of Iowa
Joel Lunde, Fiscal/Policy Principal, Iowa Department of Management