



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 14, 2020

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

Re: State of Iowa's Noncompliance with Uses of Coronavirus Relief Fund
Requirements (OIG-CA-21-011)

Dear Mr. Roederer:

We would like to thank you for responding to our inquiries regarding the State of Iowa's use of Coronavirus Relief Fund¹ proceeds to make payments related to a portion of the \$20.1 million² contract with Workday, Inc. (Workday). As explained to us by State of Iowa representatives, Workday is a computer system used for accounting and human resources that is to replace the State's legacy mainframe systems. We were also informed that 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.

We have considered all documents and information provided in support of the State of Iowa's position that the Workday contract is an allowable use of Coronavirus Relief Fund proceeds. We also consulted with the Office of the Auditor of the State of Iowa regarding the Workday contract and the current mainframe systems in use by the State. This letter incorporates our review and consideration of all information related to the Workday contract to determine whether the computer system upgrade is an allowable expenditure under the "Uses of Funds" requirements of Section 601(d) under Title VI of the *Social Security Act*, as amended by Title V of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act). Specifically, the CARES Act provides that payments from the Fund may only be used to cover costs that—

¹ The State of Iowa received \$1.25 billion 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).

² 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.

- 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.

The Department of the Treasury (Treasury) clarified necessary expenditures and assessment of need in its ***Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments (Updated September 2, 2020)***³ (Guidance):

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...

Given that it is not always possible to estimate with precision when a good or service will be needed, the touchstone in assessing the determination of need for a good or service during the covered period [March 1 –December 30, 2020] will be reasonableness at the time delivery or performance was sought, e.g., the time of entry into a procurement contract specifying a time for delivery.

Treasury clarified costs incurred in its Guidance as follows:

Costs incurred during the period that begins on March 1, 2020, and ends on December 30, 2020

...for a cost to be considered to have been incurred, performance or delivery must occur during the covered period but payment of funds need

³ <https://home.treasury.gov/system/files/136/Coronavirus-Relief-Fund-Guidance-for-State-Territorial-Local-and-Tribal-Governments.pdf>

not be made during that time (though it is generally expected that this will take place within 90 days of a cost being incurred).

As described below, we determined that the contract with Workday is not an allowable use of Coronavirus Relief Fund proceeds as it does not meet all CARES Act criteria.

The State of Iowa contracted with Workday in October 2019 to provide technological upgrades and replace Iowa's legacy mainframe human resources and financial accounting systems. Among other things, the Workday contract encompasses three key components: (1) the Human Capital Management system; (2) the Financial system; and (3) Adaptive, a budgeting and analysis system. 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 5-year period with one payment of \$2.8 million paid on the effective date of the contract. According to additional information provided, Adaptive went live on October 30, 2020. However, implementation of the Human Capital Management system is not scheduled to go live until July 2021, and the Financial system is not scheduled to go live until June 2022. While Adaptive was implemented before December 30, 2020, it was noted in documents provided to us that "users will continue to use I/3⁴ as the system of record for budgeting purposes until Workday Financials is implemented in 2022." Given the State of Iowa's continuing use of I/3 until June 2022 for budgeting and financial accounting and July 2021 for human resource management, the Workday system upgrade will not be available to fulfill the State of Iowa's COVID-19 related needs before December 30, 2020.

We asked Iowa officials to explain how the Workday contract costs were necessary expenditures incurred during the covered period (March 1 through December 30, 2020) due to the public health emergency with respect to COVID-19.

According to the State's 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[out] a cloud-based system and provides a new cloud-based planning and budget tool. With

⁴ I/3 is the State of Iowa's legacy finance, budget, data warehouse, vendor self-service system, centralized payroll, and the state's Human Resources system for both the functional side of state accounting within the Department of Administrative Services and the technical side within the Office of the Chief Information Officer (OCIO).

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.”

Further, it was noted in documents provided that “in March 2020 and the following months of this unprecedented public health emergency, the need for these upgrades, particularly the Human Capital Management system and Adaptive became even more acute.” These cloud-based systems will permit State government “to productively continue functioning when many state employees are operating remotely to reduce the risk of transmission of coronavirus. Second, the Human Capital Management system will better permit the State to swiftly adjust to changing requirements caused by the emergency—whether that is new categories of leave or other processes necessitated by the emergency—without engaging in 1950s-era reprogramming. Third, the Adaptive system provides a new tool for our state agencies and leaders to plan, model, budget, and forecast to properly respond to the public health emergency and its second-order economic effects.”

To assess the assertions of Iowa’s OCIO representative, we asked whether any additional system requirements or contract change orders were necessary for Workday to specifically address the COVID-19 pandemic issues since October 2019. We were informed that there were none and the original requirements and planned uses of the system remain largely the same. Iowa representatives emphasized that “the ability to access the human resources and budgeting systems remotely, and more quickly adjust features of human resources system, have become more urgent and necessary. These will be used more now than was originally planned because of the public health emergency. And the continued and growing challenges of the public health emergency demonstrate daily that the need for these agile cloud-based systems will remain a critical part of the State of Iowa’s response.”

While the new and modern Workday system may provide additional functionalities through a cloud-based environment, the timeline for achieving them is nearly two years away and the system upgrades were contemplated well before the pandemic began. As such, the Workday system is not available to meet the State’s urgent needs during the covered period. Accordingly, we maintain our position that funding the Workday contract with Coronavirus Relief

Fund proceeds is not a reasonable, allowable use of funds related to address the COVID-19 health pandemic.

We require that amounts equal to payments issued on the contract with Workday and any system implementation expenses related to contractor assistance using Coronavirus Relief Fund proceeds 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.

In a written response to a draft of this letter, the State Governor authorized the return to Iowa's Coronavirus Relief Fund of all amounts that were initially allocated for payments on the Workday contract, including any system implementation expenses related to contractor assistance. The Governor's letter, which is appended to the response, authorized the transfer of \$21 million from the OCIO to Iowa's Coronavirus Relief Fund. The transfer is to be completed no later than close of business on December 18, 2020. It is also noted that the State will not use proceeds from the Coronavirus Relief Fund to make any additional payments on the contract with Workday. These planned corrective actions are responsive to our letter. The State's written response, in its entirety, is provided as attachment 1 to this letter.

We appreciate your prompt response to the concerns expressed in this letter and the courtesies shown to our staff.

Sincerely,



Richard K. Delmar

Deputy Inspector General

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

Attachment



STATE OF IOWA

KIM REYNOLDS, GOVERNOR
ADAM GREGG, LT. GOVERNOR

DEPARTMENT OF MANAGEMENT
David Roederer, Director

December 11, 2020

Richard K. Delmar
Deputy Inspector General
Office of Inspector General
Department of the Treasury
Washington, DC
VIA EMAIL

RE: State of Iowa's Use of Coronavirus Relief Fund Payment for Workday

Dear Mr. Delmar:

The State of Iowa received your letter dated December 2, 2020, in which you affirmed your office's determination that payments under the State of Iowa's contract with Workday, Inc. are not allowable expenditures under the CARES Act.

Although the State continues to maintain that these are allowable expenditures, we respect the determination made by your office. The Governor has authorized the return to Iowa's Coronavirus Relief Fund all amounts that were initially allocated for payments on the Workday contract, including any system implementation expenses related to contractor assistance. (Attachment A, Transfer Letter dated December 11, 2020). That transfer will be completed no later than close of business on December 18, 2020. The State will not use proceeds from the Coronavirus Relief Fund to make any additional payments on the contract with Workday. Please do not hesitate to reach out if we can provide any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "David Roederer".

David Roederer
Director of the Iowa Department of Management

Attachment: Transfer Letter

DEPARTMENT OF MANAGEMENT
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KIM REYNOLDS
GOVERNOR

OFFICE OF THE GOVERNOR

ADAM GREGG
LT GOVERNOR

December 11, 2020

Director David Roederer
Department of Management
State Capitol
Des Moines, Iowa 50319

Director Roederer,

I hereby authorize the transfer of \$21.0 million from the Office of the Chief Information Officer to the Coronavirus Relief Fund. This represents all amounts initially allocated for payments related to the Workday contract as previously authorized for transfer for expanding access to telework dated July 17, 2020.

Sincerely,


Kim Reynolds
Governor of Iowa

Attachment A