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NEWS RELEASE

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FOR RELEASE

March 12, 2004

Auditor of State David A. Vaudt today released a report on a review of selected service contracts entered into by the Information Technology Department (ITD) under the authority of its former Director, Richard Varn. The review was requested by the Governor's Office and was conducted to determine if proper contracting methods had been used in establishing the contracts. In addition, the contracts were reviewed to determine if ITD properly monitored the contracts and evaluated the services received to ensure the service providers were held accountable for adequate delivery of contracted services.

Vaudt reported approximately 18%, or \$19.8 million, of ITD's total expenditures during fiscal years 2000 through 2003 were for contracts with service providers. Payments on the contracts reviewed totaled \$12.9 million during the same time period.

Vaudt identified contracts that did not comply with the contracting rules in effect at the time the service contracts were entered into. The competitive bid or sole-source procurement methods required by the appropriate contracting rules were not followed for those contracts. In some cases when the contracting rules were not followed, the former Director of ITD appears to have chosen preferred vendors with whom he had a personal relationship, creating the appearance of favoritism or lack of independence. The potential for favoritism or lack of independence existed for other contracts, but a lack of information and documentation precluded a determination of favoritism or lack of independence for those contracts.

In addition, certain contracts did not contain appropriate or required contract clauses and ITD did not consistently document contract monitoring and evaluation of services received from the vendors. Vaudt reported, based upon service contract file documentation maintained by ITD, it appears payments made exceeded approved amounts for four service contracts by approximately \$367,000.

Vaudt recommended the administration of the Information Technology Enterprise (ITE) within the Department of Administrative Services, the successor to ITD, implement procedures to ensure compliance with current contracting rules. ITE representatives have stated changes to address the issues identified in the report are in progress.

Leased space used by ITD was also reviewed. During fiscal years 2000 through 2003, ITD paid \$38,575 to prepare the leased space for occupancy and paid \$239,014 to the landlord for rent. Because the leased space was not being utilized as originally anticipated, the Chief Operating Officer of ITE moved staff from the leased location to office space on the Capitol Complex after June 30, 2003. As a result, it does not appear leasing office space was in the best interest of the State.

Copies of the report are available for review in the Governor's Office, the Department of Administrative Services, the Office of Auditor of State and on the Auditor of State's web site at www.state.ia.us/government/auditor/reports.

**DEPARTMENT OF ADMINISTRATIVE SERVICES
INFORMATION TECHNOLOGY ENTERPRISE**

**A REVIEW OF SELECTED SERVICE CONTRACTS
APRIL 1, 1998 THROUGH JUNE 30, 2003**

Table of Contents

	<u>Page</u>
Auditor's Transmittal Letter	3-4
Background Information	5-6
Request for Review	6-7
Objectives, Scope and Methodology	7-8
Findings and Recommendations:	
Leases	9-10
Service Contracts	
1. Relationships between the service provider and former ITD administrators had appearance of lack of independence and favoritism	11-12
2. Service provider selection method not documented or not appropriate	12
3. Sole source not sufficiently justified	13-14
4. Monitoring and evaluation of service provider performance is not documented and/or needs improvement	14-17
5. ITD allowed contract work to start prior to obtaining a signed contract	17
6. Approved contract amounts were exceeded by actual costs	17-18
7. Service contract preparation and documentation procedures were not followed	19
8. Extensive use of contracts established by General Services	19-20
9. Payments for immigration services	21
Schedules:	<u>Schedule</u>
Service Providers Reviewed	1 24-32
Staff	33
Appendices:	<u>Appendix</u>
Copies of Selected Communications Regarding Leased Space	A-C 36-47
Pictures of ITD Leased Office Space	D 48-49



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To the Governor and the Director of the
Department of Administrative Services:

At the request of the Governor's Office and in accordance with Chapter 11 of the *Code of Iowa*, we have conducted a review of service contracting procedures and selected contracts entered into by the Information Technology Department (ITD) between fiscal years 1998 and 2003. We also reviewed ITD's monitoring of the contracts. The request from the Governor's Office also specified review of ITD's leasing options for property and equipment. In conducting our review of the service contracts, we performed the following procedures:

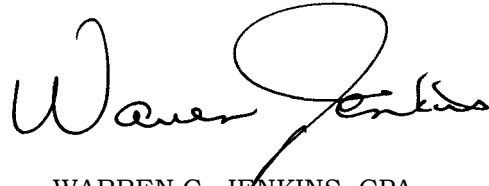
1. Interviewed various personnel and reviewed related information to obtain an understanding of ITD's planning, contracting, monitoring and evaluating functions related to service contracts.
2. Reviewed the Department of Inspections and Appeals (DIA) report regarding its investigation of ITD's service contracting procedures and contracts and met with DIA staff to discuss the results of their investigation. Documentation related to DIA's investigation was not provided for our review.
3. Examined selected service providers' contracts and related activity to determine whether ITD:
 - a. Complied with the significant aspects of the service contracting laws, procedures and rules in effect at the time each contract was established.
 - b. Received the contracted services.
 - c. Included required contract clauses in the service contracts.
 - d. Performed and documented sufficient oversight, including monitoring and evaluation of services received.
4. Examined selected service contracts to determine whether the contract clauses were sufficient for holding the service providers accountable for performance of contract terms.
5. Reviewed the relationships between ITD staff and service providers, where possible, to determine if there was the appearance of favoritism or a lack of independence.
6. Reviewed the terms and conditions of the lease at 401 SW 7th Street, Des Moines.
7. Visited the space leased and occupied by ITD and observed the facilities available and the build-outs.
8. Compared the number of personnel employed by ITD and located at the leased facility to the numbers of employees located in ITD's office space in the Hoover Building, taking into account the total space available at each location.

Based on these procedures, we have developed certain recommendations and other relevant information we believe should be considered by the Governor and the Information Technology Enterprise of the Department of Administrative Services.

We extend our appreciation to personnel 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

January 16, 2004

INTRODUCTION

Background Information

The Information Technology Department (ITD) was under the leadership of Richard Varn from April 1, 1999 through November 27, 2002. Mr. Varn was appointed Chief Information Officer and Director of Information Technology by the Governor. Prepared by Mr. Varn's administration, ITD's 2001 Annual Report included the following mission:

The mission of the Information Technology Department is to provide core information technology services for public-purpose organizations and articulate a vision for what can be accomplished through technology.

ITD's 2001 Annual Report also included the following information entitled, "To Our Customers & Constituents," from the Chief Information Officer and Director of Information Technology:

This past year was a turning point in which the goal of electronically transacting services between State government and Iowans began a marked shift from vision to reality. Several important government operations made the jump from theories and models to providing actual, working electronic services for Iowans.

From professional licensing for nurses to more electronic citizen and business tax filings, Iowa moved decisively forward in offering the next generation of convenience, quality and speed in government services to its stakeholders.

The Iowa Information Technology Department is proud to serve state departments by helping them acquire and deploy these exciting new technologies. They are some of the more than 200 initiatives now in action or on the drawing boards throughout state government. ITD is helping to build and implement them even as Iowa grapples with new realities in budget and service demands.

We also took tangible steps toward building greater security and coordination among the technology systems that comprise Iowa's digital infrastructure. Such a focus on security looms even more important in this new era of heightened alert and greater need for protection.

We look forward to continuing working with our customers to build Iowa's digital government together.

One of the primary goals reported in ITD's 2001 Annual Report was to move from paper and manual processes to "E". The report included the following information:

ITD is dedicated to moving government service to digital systems and the high-speed connective infrastructure that supports them. This is digital government in Iowa - termed 100% E. by Governor Vilsack. 100% E will save money, increase speed, accuracy, and efficiency and improve service and value that Iowa taxpayers and other customers receive from their state government. ITD serves as a consultative, customer-focused service provider, helping departments identify programs for migration to an e-platform and assisting with full-scale implementation.

The 2001 Annual Report also reported on the status of 100% E Projects as of December 2001. ITD reported staff met with representatives of 32 State agencies, divisions, and boards during September and October of 2001 and identified projects to be included in the 100% E initiative. The purpose of the meetings was to determine the status of each project and to discuss how ITD could be of assistance in moving these projects forward. While budget constraints resulted in some revisions to the 100% E initiative goals, most of the State agencies expressed interest in continuing to develop and implement projects by the end of fiscal year 2003. Based on meetings with the State agencies, the initial list of 100% E projects was adjusted. As of December 2001, there were 225 projects included in the 100% E initiative and 30 of the 225 were completed. According to a Department representative, an Annual Report was not prepared for 2002 or 2003.

The former administration of ITD entered into several information technology service contracts to aid in carrying out its mission and goals, with an emphasis on trying to accomplish the goal of having the State's government become 100% E (electronic) by 2003. **Table 1** summarizes ITD's total expenditures and the amounts spent for professional services during fiscal years 2000 through 2003. As illustrated by the table, approximately 18% of ITD's total expenditures for the last four fiscal years were for professional services contracted for with vendors. A significant amount of the expenditures were to convert State government operations and forms to an electronic format as part of the 100% E initiative.

Table 1

Fiscal Year	Total ITD Expenditures	Total Professional Services Expenditures	Percentage of Total
2000	\$ 19,127,041	3,811,619	19.9%
2001	25,422,973	6,070,699	23.9%
2002	40,482,728	4,426,655	10.9%
2003	25,599,020	5,480,644	21.4%
Totals	\$ 110,631,762	19,789,617	17.9%

Source: IFAS expenditures class code downloads. Professional services expenditures include IFAS class 405, Professional Services, and 406, Outside Services. Total ITD expenditures include all expenditures except class 407, Intra-state Transfers.

ITD staff established some of the professional service contracts used during fiscal years 2000 through 2003. They also used professional service contracts established by the Department of General Services. General Services solicits and establishes Statewide service contracts for use by State agencies, such as contracts for computer consultants, media display and production services. General Services is required to use the same procurement processes other State agencies are required to use to establish service contracts, including an emphasis on a competitive process. State agencies are advised annually of the types of service contracts on file in the Purchasing section of General Services and may request copies of any or all of the contracts. As needed, State agencies refer to the appropriate contract and prepare an agency purchase order for services or items to be delivered from the contract.

Effective July 1, 2003, ITD was renamed the Information Technology Enterprise (ITE). The Laws of the 2003 Regular Session of the 80th General Assembly of the State of Iowa enacted House File 534 that provided for the reorganization of certain State agencies by establishing a Department of Administrative Services (DAS). ITE is now included within DAS. We have referred to the Department as ITD throughout this report when speaking in the past tense. We have addressed our recommendations for the future to ITE.

In addition, the Department of General Services became the General Services Enterprise and is now within DAS. The General Services Enterprise will be referred to as "General Services" in the remainder of this report. Also, the Financial section of the Department of Revenue and Finance and the Department of Personnel have been placed within the new DAS and are named the State Accounting Enterprise and Human Resources Enterprise, respectively.

Request for Review

The Governor's Office received complaints regarding contracting procedures used by ITD and in March 2003 asked the Department of Inspections and Appeals (DIA) to conduct an investigation. Subsequent to the DIA investigation, the Governor's Office requested the State Auditor to conduct a review of the Information Technology Department's contracting procedures and contracts. We met with DIA staff to discuss the results of their investigation in conjunction with planning for our review.

The Governor's Office also requested the State Auditor review the leasing options for property and equipment for ITD. We met with General Services' staff to discuss leasing procedures in conjunction with planning for our review of ITD's leases.

Objectives, Scope and Methodology

To determine the propriety of the leasing arrangements for ITD, we reviewed the lease established by General Services for space occupied by ITD in downtown Des Moines. We also observed the leased area and compared it to spaces leased by other State agencies and the space occupied by ITD in the Hoover Building.

The Governor's Office also requested we review ITD's leasing of equipment. Of particular concern was equipment leased from IBM. After discussing concerns with DIA officials and reviewing ITD's contracts with IBM (some of which were established prior to Mr. Varn's tenure), we determined no definitive conclusions could be drawn about ITD's leased equipment.

We reviewed selected information technology service contracts to determine if the contracts were sufficiently monitored and evaluated by ITD staff to ensure service providers were held accountable for adequate delivery of agreed-upon services. We also reviewed the selected contracts for compliance with applicable service contracting laws, procedures and rules in effect at the time the contracts were established and to determine if any contractual relationships had the appearance of favoritism or a lack of independence.

We selected contracts established during fiscal years 1998 through 2003. Several of the contracts selected had terms extending into fiscal year 2004. Therefore, we reviewed ITD's contract management procedures in place in fiscal year 2004, as applicable.

Generally, the following methodology was followed for our review of ITD service contracts:

- 1) Using the Iowa Financial Accounting System (IFAS), we identified ITD's fiscal year 2000 through 2003 class 405 (professional and scientific services) and 406 (outside services) expenditures by vendor.
- 2) We judgmentally selected 44 service contracts to review and then obtained and examined copies of the contract documents and other relevant activity from the contract files.
- 3) We discussed contract management procedures with ITD staff to obtain an understanding of the procedures used to determine the need to contract for services, service provider selection, payment methods and amounts, and monitoring/oversight.

Table 2 summarizes the total payments made during fiscal years 2000 through 2003 to the 44 service providers selected for review. Because total payments on IFAS cannot be identified to a specific contract, the payments may include disbursements not related to the contracts we reviewed. **Table 2** also compares the payments to the selected vendors to ITD's total "professional services" expenditures for each year, as presented previously in **Table 1**.

Table 2		
Fiscal Year	Total Payments to Selected Vendors	Total Professional Services Expenditures
2000	\$ 1,358,459	3,811,619
2001	3,835,805	6,070,699
2002	3,201,931	4,426,655
2003	4,492,265	5,480,644
Totals	\$ 12,888,460	19,789,617

Source: IFAS

A determination was made to perform a detailed review for 20 of the 44 service providers' contracts. While the remaining 24 service providers' contracts were reviewed in less detail, findings were still identified. Some of the service providers selected for review had more than one contract with ITD; each of the contracts, as available, was examined for the selected service providers.

Findings and Recommendations

Leases - We have summarized our observations related to the ITD's lease space in the following section of this report. ITE is now centrally located in the Hoover Building and space is no longer leased for the Department/Enterprise.

Service Contracts - As a result of our review, we identified the following findings and recommendations. While our findings are based on proper contract management practices and the rules in effect at the time the contract was established, our recommendations take into consideration the current rules for establishing service contracts in addition to proper contract management practices. Where applicable, we have referred to the appropriate rules. Because our recommendations are meant to improve the entire contract management process followed by ITE, it is not our intent to simply recommend the agencies follow the rules.

Our recommendations are directed at future contracts established by ITE. In addition, the recommendations should be applied, as appropriate, to existing contracts still in effect. For instance, we would expect recommended improvements to contract monitoring be applied to all new and existing contracts while recommendations to improvements to locating potential vendors and soliciting bids would be applied only to new contracts pursued by the agencies.

LEASES

In accordance with Chapter 18 of the *Code of Iowa*, General Services has the authority and responsibility for leasing buildings and office space necessary for the proper functioning State agencies. According to personnel from General Services, leasing is generally done when a State agency located on the Capitol complex expands a program or establishes a new program and there is no room to house the program on the complex. Leasing may also be done for State agencies that plan renovation or restoration of a building and must temporarily relocate off the complex.

In June 2000, ITD's Chief Financial Officer (CFO) submitted a request to General Services for leased space. The request stated Mr. Varn planned to create a new unit within the Department, the Office of IT Innovation, which was to "conduct research and operate a laboratory for the exploration and deployment of new and emerging technologies." According to the request, ITD planned to "dramatically increase the number of interns and qualified seasonal employees working with ITD staff" to address new responsibilities assigned to the Department. In July 2000, representatives of General Services met with ITD's CFO. According to a memorandum between General Services' personnel, the CFO estimated ITD "would need new and additional office space for approximately 80 – 100 employees" as a result of new and expanding programs. General Services was able to confirm the estimate with personnel from the Department of Management. Copies of selected communications regarding the proposed leased space are included in **Appendices A and B**.

Subsequently, General Services assisted ITD in securing leased office space at 401 SW 7th Street in Des Moines along with several other State agencies. Leased space usually consists of a "shell" which requires build-out costs to prepare the space as a workable area. Typically, the landlord negotiates an amount they will pay for the build-out costs. The negotiated build-out cost amounts may vary from location to location. For the space leased at 401 SW 7th Street, Des Moines, the lease agreement stated the following regarding build-out costs.

"Landlord shall pay the first \$20.00 per square foot of leasable area in the Leased Premises (the "Tenant Improvement Allowance") of such costs of construction of the Tenant Improvements. Tenant shall pay any costs of construction of such Tenant Improvements approved by Tenant and incurred by Landlord that are in excess of the Tenant Improvement Allowance"

As ITD and General Services, along with the other State agencies moving into the same location, prepared to ready the building for occupancy, ITD made several requests for items that would be considered build-outs. Due to the unique nature of the build-outs requested by ITD and their related cost, General Services requested guidance from the Governor's Office and the Department of Management (DOM) prior to approving the requests. An e-mail documenting DOM's guidance is included in **Appendix C**. While DOM approved the requests directly related to the "functionality of the Department," other requests determined not to be related to ITD's function were denied.

Table 3 presents a summary of the build-out costs at 401 SW 7th Street in Des Moines for ITD and the Departments of Human Services, Revenue and Finance, and Natural Resources.

Table 3

State Agency	Square Feet Leased	Build-out Costs			Per Square Foot
		Landlord Costs	Tenant Costs	Total	
ITD	6,351	\$ 127,020.00	38,575.00	165,595.00	26.07
Human Services	4,819	93,380.00	17,457.00	110,837.00	23.00
Revenue and Finance	8,379	167,580.00	16,758.00	184,338.00	22.00
Natural Resources	13,183	263,660.00	9,879.44	273,539.44	20.75
Totals	32,732	\$ 651,640.00	82,669.44	734,309.44	

The build-out costs incurred by the Departments of Human Services and Revenue and Finance were to meet HVAC requirements. ITD's total build-out costs of \$165,595 exceeded the tenant allowance for build-out costs by \$38,575 or by \$6.07 per square foot. ITD's build-out costs included electrical specifications that required breaking up the existing concrete floor, an 8 x 8-foot aluminum and glass overhead door for the innovation lab, and a retractable electrical projection screen.

As stated previously, in June 2000, ITD planned to fill the leased space with new and existing staff members. As illustrated by ITD's request for leased space (page 36), ITD intended to hire 22 interns and locate them at the leased office. However, the interns were never hired by ITD. The request documented on page 36 shows ITD intended to locate 40 staff members in the leased space. It is not clear why this number is less than the estimate of 80-100 new employees ITD gave to General Services.

The number of actual ITD staff at the SW 7th Street location as of June 30, 2001 was 37. By June 30, 2002 the number of staff located in the office on SW 7th Street had been reduced to 29, a reduction of eight staff from June 30, 2001. The number of ITD staff located at the Hoover Building was reduced by 52 to 113 as of June 30, 2002. During fiscal year 2003, ITD incurred additional staff reductions. After the end of the fiscal year the new Chief Operating Officer of ITE (Mr. Varn's successor) decided to move the staff from the leased location to the Hoover Building.

We observed the space leased for ITD. Pictures of portions of the leased office are included in **Appendix D**. As seen in the pictures, much of the furniture is freestanding and not similar to the modular office furniture typically used in State agencies. The walls and workstations used in the leased office are currently in storage and will be sold. According to ITE staff, the chairs, freestanding desks and files were moved to the Hoover Building and are being used.

After reviewing ITD's leasing arrangements, it does not appear locating ITD staff at the office on SW 7th Street was necessary or in the best interest of the State. ITD occupied this office from late December 2000 to July 2003 and paid \$239,014.34 to the landlord for rent. Currently, the State Fire Marshal occupies the space vacated by ITD staff.

SERVICE CONTRACTS

FINDING 1 - Relationships between the service provider and former ITD administrators had appearance of favoritism or lack of independence

Based on procedures we performed, it was determined the relationships between Mr. Varn, the former Director of ITD, and four service providers created the appearance of favoritism or a lack of independence. Of the remaining 20 contracts we reviewed in detail, there may have been additional contracts with the same potential for the appearance of favoritism; however, due to a lack of information and documentation, we were not able to determine if a personal relationship existed between Mr. Varn and the vendors. The following information explains why the relationships appeared to be inappropriate and identifies the amount ITD paid each vendor.

- Enterprise Iowa Inc.
 - ◆ The selection method was not documented for three of ITD's four service contracts with Enterprise Iowa Inc. and no competitive bidding was involved for procuring the services under any of the four contracts. See **FINDING 2**.
 - ◆ Individuals we interviewed stated Mr. Varn selected the vendor he wanted for the contract.
 - ◆ The individual that owned Enterprise Iowa Inc. and acted as a consultant for the company was identified as a friend of Mr. Varn.
 - ◆ ITD paid Enterprise Iowa Inc. \$658,773 during fiscal years 2000 through 2003.
- Public Resource Services Corporation
 - ◆ The selection method was not appropriate. See **FINDING 2**.
 - ◆ The consultant assigned to ITD married Dan Combs, ITD's Director of Digital Government, during the contract period. The consultant reported progress to Mr. Varn and Mr. Combs.
 - ◆ The owner of Enterprise Iowa Inc. also owned and operated Public Resource Services Corporation and, as stated above, was identified as a friend of Mr. Varn.
 - ◆ ITD paid Public Resource Services Corporation \$94,457 during fiscal years 2002 and 2003.
- JMB Consulting/Present Dynamics
 - ◆ The selection method was not documented and no competitive bidding was involved for procuring the services. See **FINDING 2**.
 - ◆ Individuals we interviewed stated Mr. Varn selected the vendor he wanted for the contract.
 - ◆ The JMB Consulting/Present Dynamics' consultant was identified as a friend of Mr. Varn.
 - ◆ Individuals we interviewed questioned whether the services provided were necessary and thought the work could have been done internally.
 - ◆ ITD paid JMB Consulting/Present Dynamics \$144,084 during fiscal years 2000, 2002 and 2003.
- Accelio/JetForm Corporation
 - ◆ The selection method was not documented. See **FINDING 2**.
 - ◆ Individuals we interviewed stated Mr. Varn selected the vendor he wanted for the contract.

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- ♦ The Accelio/JetForm Corporation consultant was identified as a friend of Mr. Varn.
 - ♦ The selection method was not documented. See **FINDING 2**.
 - ♦ ITD paid Accelio/JetForm \$103,552 during fiscal years 2001 and 2002.

Recommendation – Specific procedures and criteria to be used by all applicable State agencies are identified in the current procurement rules. ITE should evaluate each individual contract under consideration and determine the appropriate procurement method allowed by those rules.

Whenever possible, contracts should be established through a competitive procurement method. When contracts are established using a competitive process, the appearance of favoritism and lack of independence will be reduced so long as ITE's evaluation and final selection process are appropriately carried out and documented.

In the case of contracts that are procured under the "sole source" method, ITE should ensure all sole source criteria established by current rules are satisfied and appropriately documented.

FINDING 2 - Service provider selection method was not documented or not appropriate

We examined contract files for 20 service providers to determine how the vendors were selected and to determine compliance with the applicable procurement laws, rules and procedures.

Selection Method Not Documented - The service provider selection method was not documented in the contract files for 5 of the 20 service providers reviewed. As stated in **FINDING 1**, Mr. Varn selected vendors he wanted for certain services and then instructed contracts be established with those vendors. In addition to Enterprise Iowa Inc., JMB Consulting/Present Dynamics and Accelio/JetForm Corporation, ITD's contracts with NOA Global Inc. were established at the request of Mr. Varn and without following applicable procurement rules according to ITD staff we interviewed.

ITD also did not document the vendor selection method for the contract with Geoanalytics Inc. According to ITD staff we interviewed, the contract was established with this vendor because ITD was aware the provider was under contract with the Department of Transportation (DOT) for similar services and had been selected as a sole source provider by DOT.

We also determined the service provider selection method was not documented in the contract file for 1 of the 24 service contracts we reviewed in less detail. According to ITD staff we interviewed, ITD's contract with Compaq Computer Corporation was established at the request of the Director of Digital Government and without following applicable procurement rules.

Selection Method Not Appropriate – Of the 20 contracts reviewed, we determined one vendor was not selected in an appropriate manner. The selection method used for ITD's contract with Public Resource Services Corporation was an informal competitive bidding process. ITD solicited bids via e-mail and then evaluated the responses received from possible service providers. The initial service contract was estimated to be \$98,000.

Department of Revenue and Finance Procedure 240.102 dated April 1, 2001 required service contracts in excess of \$25,000 be procured using requests for proposals or other authorized competitive processes. When ITD realized the initial estimate exceeded \$25,000, they should have pursued requests for proposals or another authorized competitive process.

Recommendation – Specific vendor selection procedures are included in the current procurement rules. ITE should evaluate each individual contract under consideration and determine the appropriate procurement method allowed by those rules. In addition, ITE should maintain documentation of the selection method in each contract file.

FINDING 3 – Sole source not sufficiently justified

Four of the twenty contracts we reviewed in detail were not competitively bid. For the four contracts, we examined the contract files for documentation of compliance with laws, administrative rules and procedures applicable to the sole source procurement method. The sole source requirements changed over the timeframe for which we reviewed the selected service providers' contracts. Therefore, we reviewed the selected contracts for compliance with service contracting procedures or rules in effect when the contracts were established.

Of the 4 sole source contracts we reviewed in detail, 2 had documented justifications that were not sufficient to support the sole source method of procurement. The contracts were with Expense Reduction Corp. and Enterprise Iowa Inc. (the fourth of four contracts with the vendor). In addition, we determined 2 of the 24 contracts reviewed in less detail had documented justifications that were not sufficient to support the sole source procurement method. The contracts were with American Red Cross (IAIRS) and Red 5 Interactive Inc.

The sole source justifications reviewed were considered insufficient because the justifications did not clearly explain why the selected service providers were the only ones able to perform the service and/or why it was necessary to use sole source procurement. Also, it was not evident ITD attempted to use a competitive procurement method for the contracts reviewed. The following are examples of some of ITD's sole source justifications and explanations as to why we considered them insufficient:

- **American Red Cross (IAIRS)** - The justification was not considered sufficient because the only sole source justification included in the contract file was a document submitted by the American Red Cross to explain why the IAIRS of the American Red Cross was a sole source provider. ITD did not document a sole source justification as required by the service contracting procedures. The sole source justification for the Iowa Alliance and Information and Referral Systems (IAIRS) included in a letter written by the American Red Cross and submitted to ITD, was as follows:
 - ◆ *“This letter is to inform the State of Iowa that members of the Iowa Alliance and Information and Referral Systems are the sole source providers of health and human resource data for the majority of the counties in the State. Other entities may and do have health and human resource data however, it would not be data that was compiled, formatted and coded with a taxonomy source, in electronic form, that meets the national standards established by the Alliance of Information and Referral Services that also meets the requirements of the Iowa Resource Network.”*
- **Red 5 Interactive Inc.** - The justification was not considered sufficient because there are other information technology companies that could perform the contracted service. In fact, the justification itself stated there were other options available, including ITD. The sole source justification was as follows:
 - ◆ *“The Alcoholic Beverages Division (ABD) required redevelopment of a web site in order to provide public access to information in a timely and efficient manner. ITD, Iowa Interactive (Iowa Access contractor) and Red 5 Interactive (an award winning web development firm and whom previously performed web development services for ABD) was asked to submit proposals and costs for providing the required web development services. Red 5's costs were comparable to cost of utilizing either ITD or Iowa Interactive to provide the same services. Red 5 Interactive was able to commence development immediately and provide the services timely.”*

Based on information obtained during interviews with ITD staff, sole source selections were generally used if the services, abilities and/or personnel of a certain service provider were known to be more reputable and experienced than other service providers and if specific expertise was necessary for the work. While these are important considerations, the use of these criteria without attempting a competitive procurement process is not a proper procurement practice. There are certain risks associated with the use of sole source service providers including, but not limited to, the most qualified service provider not being selected and the best price for the service contract not being obtained.

Recommendation – Specific procedures and criteria to be used by all applicable State agencies are identified in the current procurement rules. ITE should evaluate each individual contract under consideration and determine the appropriate procurement method allowed by those rules.

Whenever possible, contracts should be established through a competitive procurement method. Alternatively, when contracts are established under the “sole source” method, ITE should ensure sole source criteria established by current rules are satisfied and appropriately documented.

FINDING 4 – Monitoring and evaluation of service provider performance is not documented and/or needs improvement

Based on the service contract documentation reviewed and inquiry, ITD had few documented examples of contract monitoring and evaluating of services performed for the duration of the contracts or an overall evaluation of services received. According to ITD staff and our review of contract files, some monitoring was done via phone, e-mail, meetings and observation of day-to-day activities. However, it was not documented with any degree of regularity and in some cases, not documented at all.

ITD did not document the methods or results of monitoring and evaluation of service provider performance for 12 of the 20 service providers’ contracts reviewed in detail and 1 of the 24 contracts reviewed in less detail (IAIRS.) The contracts are listed in the following table.

Table 4

Service Provider	Monitoring and evaluation of services for duration of contract not documented	Overall final evaluation of service provider performance not done or not documented
Accelio/JetForm Corporation	X	X
American Red Cross (IAIRS)	X	X
Beechwood Computing Ltd.	X	X
Enterprise Iowa Inc.	X	X
Expense Reduction Corporation	X	X
FormSoft Group Ltd.	X	X
Horizon Computer Consulting Inc.	X	X
Iowa Interactive Inc.	X	-
JMB Consulting/Present Dynamics	X	X
Net Integrated Consulting	X	X
Public Resource Services Corporation	X	X
NOA Global Inc.	X	X
Technical Consultants International LLC	X	X

ITD staff we spoke with indicated some evaluation of services was occasionally done during the performance of the contracts, but in many instances it was not documented, nor was it adequate to determine the overall quality and extent of services received. We have included four examples of contracts that were not effectively monitored.

➤ ***Enterprise Iowa Inc.***

Enterprise Iowa Inc. provided facilitation, coordination, project management, research, administrative support, and report and newsletter preparation services related to digital government and 100% E projects for ITD from April 24, 2000 through June 30, 2003. From the outset, the wording and format of Enterprise Iowa's four consecutive contracts left the contracts open to subjective interpretation, allowed costs to escalate and did not facilitate effective monitoring. The initial estimate for the four contracts, as documented on the Pre-Contract Questionnaires, totaled \$78,782.

Also, the four contracts included a clause allowing additional projects to be approved and added under the contracts. Subsequently, Enterprise Iowa Inc. submitted several work authorizations, project proposals and amendments for approval to provide additional services totaling \$556,139.

Mr. Varn was responsible for monitoring and evaluating the first two Enterprise Iowa Inc. contracts. However, no monitoring and evaluation documentation was available for these contracts. The third and fourth Enterprise Iowa Inc. contracts were monitored and evaluated by current ITE staff and improved monitoring and evaluation methods were implemented. However, the monitoring and evaluation information was not consistently documented in the contract files.

The final approved combined dollar amount under the four contracts totaled \$634,921, an increase of \$556,139 or 705.9% over the original cost estimates. The amendments, project proposals and work authorizations were all approved by ITD throughout the duration of the contracts, but the methodology used for initiating, executing and monitoring the contracts was not considered sufficient.

➤ ***Iowa Interactive Inc.***

The format of the Iowa Interactive Inc. contract did not facilitate effective monitoring and evaluation of services received to ensure the service provider was held accountable. The contract included payment schedules, which identified the amounts to be paid to Iowa Interactive Inc. each month. However, ITD did not demonstrate how the scheduled payments correlated with the actual services and deliverables received during the applicable time periods.

In addition, the contract had multiple amendments, addenda, related memorandum, and/or revisions to the scope of work (which became quite confusing and difficult to track). The scheduled monthly payments were revised numerous times either in amount, duration or both. In fact, the contract amendment dated December 18, 2002 included a detailed listing of the eleven predecessor amendments, addenda, revisions to the scope of work, etc. that had been made to the original contract.

ITE, under the new Department of Administrative Services, has recognized there may have been problems with this service contract. Therefore, ITE has decided to renegotiate the existing contract with the service provider to make contract terms clearer and to comply with the new administrative rules included in Iowa Administrative Code [11]-Chapters 106 and 107, Purchasing Standards for Service Contracts and Uniform Terms and Conditions for Service Contracts.

➤ **American Red Cross (IAIRS)**

The Iowa Alliance and Information and Referral Systems (IAIRS) of the American Red Cross was paid \$24,630 for consulting and professional fees and travel expenses related to work on the Iowa Resource Network project. However, the service contract file did not include any documentation of contract status or results achieved. According to ITD staff, the overall project was not completed so the work done by IAIRS of the American Red Cross was not used.

➤ **Accelio/JetForm Corporation**

ITD agreed to several fixed-price contracts/project proposals totaling \$106,640 plus approved travel and living expenses, with Accelio/JetForm Corporation to develop electronic forms. ITD paid Accelio/JetForm Corporation \$83,763 to develop six electronic forms. ITD also paid the vendor \$19,789 for a sales tax forms project.

According to ITD staff, ITD chose to enhance the electronic forms created by Accelio/JetForm Corporation and continue development of online electronic forms to improve State government services for the citizens. According to information provided by ITD, the estimated cost for completing 562 online electronic forms was approximately \$800,000 through fiscal year 2003, excluding some additional costs for ITD staff work on the forms and some contract support personnel costs.

The 562 online electronic forms were available for use by nine State agencies and Polk County by September 16, 2003. The forms were developed using the work completed by Accelio/JetForm Corporation and subsequent work performed by other contractors and ITD staff to further develop the forms. As a result of the additional work, the State of Iowa spent approximately \$1,000,000 on the forms. According to ITD staff, ITD attempted to require all State agencies to use the online forms; however, not all State agencies have chosen to use them. Prior to contracting for the development and/or purchase of services or products for use by other State agencies, ITD should determine the needs of the anticipated users.

ITD did not include maximum dollar amounts within the body of the contracts with Beechwood Computing Ltd, JMB Consulting/Present Dynamics and NOA Global Inc. Revenue and Finance Procedure 240.102 required a maximum dollar amount to be included within the body of a contract. It is important that a maximum dollar amount be established for service contracts to allow for effective monitoring of contract costs.

Recommendation – Current contracting laws, rules and procedures require State agencies to include clauses in service contracts that provide for monitoring, review and payment upon achievement of contract terms. ITE should implement procedures to ensure all new service contracts include the required terms and the provisions allowed by the contract are carried out by ITE to ensure the contracted services are received in a timely and appropriate manner.

ITE should consistently monitor contracts to ensure contracted services are received in an appropriate and timely manner. Also, documentation of the monitoring and evaluation performed should be maintained in the contract file. Some suggestions to facilitate monitoring include:

- Clearly define the scope and timing of work to be performed and the performance criteria on which the service providers performance will be evaluated.
- Require detailed invoices itemizing work performed under the contract. The invoices should be compared to the services received prior to making periodic or final payments to a service provider.

- Monitor activity for the duration of the contract and document and review the service providers' performance by using the monitoring and performance review clauses as a guide to help determine service provider compliance with the service contract and effectively review performance of the service contracts.
- Track and monitor actual costs for each service contract to ensure the approved contract amounts, including all related amendments, addenda, project proposals and work authorizations are not exceeded.
- Ensure service providers take proper corrective action when problems are identified.
- Service contract documentation maintained in the contract files should include copies of General Services' contracts, as applicable. The General Services' contract serves as the master or "umbrella" agreement for subsequent authorized work. As time goes on and the contracts expire, they are eventually purged from the General Services' system and are no longer available for review or reference. The General Services' contracts often include hourly rates agreed to for broad categories of services, such as consulting or clerical. In addition, the General Services' contracts should be referred to when monitoring invoices, such as comparing billed hourly rates to contract hourly rates.

FINDING 5 – ITD allowed contract work to start prior to obtaining a signed contract

Revenue and Finance procedure 240.102 stated "Contracted services should not be performed until all signatures are obtained and distribution of the contract is made to the parties." We reviewed the 20 selected service contracts to determine if the contracts were signed prior to the start of work. According to documentation we examined, three vendors began work prior to the contract being signed by all parties. The number of days elapsed from the date work was started to the date the contract was signed ranged from 13 to 108 as presented in **Table 5**.

Table 5

Service Provider	# of Service Contracts Reviewed	# of Contracts Signed after Work Started	% of Contracts Signed after Work Started	# of Days from Work Start Date until Signed
Accelio/JetForm Corporation *	2	2	100%	91 days
Enterprise Iowa Inc.	4	2	50%	13 and 108 days
JMB Consulting /Present Dynamics, Inc.	3	1	33%	16 days

* ITD had two contracts with Accelio/JetForm Corporation. The second contract included three project proposals. The second contract was effective February 1, 2001, however, the former ITD director did not approve the contract until May 3, 2001 (91 days after the effective date).

Recommendation – Current procedures state "Contracted services are not to be performed until all signatures are obtained and distribution of contract copies is made to the parties." ITE should ensure work is not started until the contract has been signed.

FINDING 6 – Approved contract amounts were exceeded by actual costs

We compared the approved contract amounts for the 20 contracts we reviewed to the total actually paid to each vendor. We determined the amounts paid to 3 of the 20 service providers for services performed under contracts, project proposals and work authorizations exceeded the approved amounts. We also identified the same concern for 1 of the 24 contracts reviewed in less detail. The circumstances have been summarized as follows:

➤ **Renaissance Worldwide IT**

Renaissance Worldwide IT was paid a total of \$2,158,177 during fiscal years 2000 through 2002 for work on information technology projects such as the professional licensing and occupational certification system and the Iowa Ethics and Campaign Disclosure web reporting system. However, based upon a review of the relevant service contract file documentation, the approved maximum contract costs totaled \$1,844,020. Therefore, it appears ITD overpaid Renaissance Worldwide IT \$314,157.

Also, some of the hourly rates agreed to by ITD on statements of work submitted by Renaissance Worldwide IT and subsequently billed to ITD exceeded the maximum hourly rate of \$95.00 as stipulated in the General Services contract. ITD staff later recognized the problem and prepared a summary of the hourly rates billed to them in excess of the maximum rate established under the General Services contract. As of June 9, 2001, this summary identified a total of \$151,433 in excess billings. Based on a review of available contract file documentation, it appears the disputes concerning the maximum, allowable hourly rate have not been resolved and no refund has been received for the \$151,433. Further, it appears more costs based on hourly rates exceeding the maximum allowed by the General Services contracts were billed by and paid to Renaissance Worldwide IT by ITD after June 9, 2001.

Finally, ITD identified work billed by Renaissance Worldwide IT was not adequately completed and has withheld \$131,701 in billings related to the unacceptable work.

➤ **Enterprise Iowa Inc.**

Enterprise Iowa Inc. was paid a total of \$658,773 for contracted services during fiscal years 2000 through 2003. The total approved costs for Enterprise Iowa Inc.'s four consecutive service contracts, based on amounts approved on the Pre-Contract Questionnaires, amendments, project proposals and work authorizations, was \$634,921. Therefore, Enterprise Iowa Inc. was paid \$23,852 more than what was approved on the documents available for our review.

➤ **Red 5 Interactive Inc.**

Red 5 Interactive Inc.'s contract included a compensation clause stating, "The Contractor will be paid a fixed fee of \$15,000 for the Contractor's delivery and the State's acceptance of the contracted services." However, ITD paid \$15,500 to Red 5 Interactive for fiscal year 2002, which is \$500 more than the amount allowed by the contract. The service contract file did not contain any amendments indicating a change in the fee to be paid.

➤ **RSM McGladrey Inc.**

Based on available contract file documentation, ITD paid RSM McGladrey Inc. \$28,859 more than what was approved. RSM McGladrey Inc. was paid \$341,859 during fiscal years 2000 through 2002. However, the total approved contract amount was only \$313,000, including the amendments and approved project proposals available for our review.

These findings emphasize the need for establishing a comprehensive contract management system that includes the tracking and monitoring of approved contract amounts along with periodic comparisons to actual costs incurred.

Recommendation – ITE's contract management procedures should include tracking individual service provider contract costs on an individual project and cumulative basis, as applicable. The actual costs should periodically be compared to the approved contract amounts to ensure approved contract amounts have not been exceeded.

In addition, ITE personnel should determine if any of the vendors identified were overpaid and if recovery of any overpayments would be appropriate.

FINDING 7 – Service contract preparation and documentation procedures were not followed

Of the 44 service provider contract files we reviewed, 17 did not include a copy of an executed service contract. Sixteen of the 17 contracts were for information technology consulting and staff augmentation services procured under contracts established by General Services. ITD approved work authorizations and project proposals with the vendors to obtain services. However, the work authorizations, project proposals and General Services contracts were not always documented in the contract files.

We also determined some service contracts did not comply with documentation and preparation procedures established by Revenue and Finance Procedure 240.102. Some examples of the noncompliance identified includes:

- The contract with Accelio/JetForm Corporation dated October 17, 2000 did not contain an ending date.
- ITD received services from two vendors under contracts established by General Services that had expired. Horizon Computer Consulting Inc. was paid \$8,976 for information technology consulting services. ABC Virtual Communications was paid \$22,550 for work authorized under two statements of work for information technology services. General Services Purchasing staff gave written approval via e-mail to ITD to use the services under the terms of the expired contract with ABC Virtual Communications.

In addition, ITD did not maintain complete contract files including contract documentation, work authorizations or statements of work for two vendors with whom General Services had established contracts. Specifically, the vendors were Rainier Technology and ABC Virtual Communications.

Also, we identified four contracts which did not contain the proper content and were not in the proper format. In each case, the contract document was prepared by the vendor. The four contracts were Accelio/JetForm Corporation, Compaq Computer Corporation, Davis Law Firm and Gartner Group.

Recommendation – Current contracting procedures found in the Administrative Code specify the procedures for proper contract preparation. ITE should implement procedures to ensure all contracts are prepared in accordance with current guidelines. In addition, ITE should consider consulting with legal counsel when establishing certain contracts such as new vendors, unique projects, or vendor-specified clauses. ITE should also maintain complete contract files with proper documentation.

FINDING 8 – Extensive use of contracts established by General Services

A significant portion of the fiscal year 1999 through 2003 professional service expenditures for ITD were obtained using contracts established by General Services. By executing work authorizations and approving project proposals for selected service providers, the former ITD Director used the vendors to assist with the development and implementation of electronic State government services. During our discussions with ITD staff, concerns were identified regarding the lack of control and monitoring that was done for some of these contracts.

Sixteen of the forty-four ITD service providers contracts we examined were identified as General Services contracts. Some of the service providers under the General Services contracts previously worked on Y2K projects for the State. Expenditures for the sixteen contracts we reviewed are summarized in **Table 7**.

Table 7

Service Provider	Fiscal Year					Totals
	1999	2000	2001	2002	2003	
ABC Virtual Communications	\$ -	-	546,310	30,503	14,480	591,293
American Computer Services	83,326	1,488	-	276,120	153,995	514,929
Application Design Services	98,579	91,374	53,618	39,539	28,415	311,525
Cap Gemini America/Sogeti USA LLC	332,557	25,481	6,840	275,830	232,320	873,028
Covansys	-	-	-	6,000	-	6,000
Edgelogic Systems Inc.	-	-	88,764	23,231	-	111,995
Horizon Computer Consulting Inc.	-	-	8,976	-	-	8,976
IBM Corporation	-	-	-	281,845	57,012	338,857
Midland Systems Integration	-	-	-	52,866	11,500	64,366
Modern Solution Inc.	-	-	-	-	124,800	124,800
Modis	114,524	10,150	-	15,525	2,205	142,404
Quality Consulting Inc.	-	-	165,601	214,664	-	380,265
Rainier Technology	-	-	-	-	18,760	18,760
Renaissance Worldwide IT	-	157,489	1,529,072	471,616	-	2,158,177
Robert Half International Inc.	98,205	194,871	407,423	8,385	103,302	812,186
Technisource Inc.	-	-	-	41,418	167,362	208,780
Total Reviewed	\$ 727,191	480,853	2,806,604	1,737,542	914,151	6,666,341

Source: IFAS

The General Services contracts used by ITD were not established with a specific project in mind. By using the General Services contracts without seeking bids from other possible service providers, there are no assurances ITD received the best value for the project.

In 2002, General Services implemented an “invitation to qualify” (ITQ) process for information technology service contracts. Through this process General Services prequalifies vendors that meet established criteria and have agreed to terms and conditions required by the State of Iowa. It is General Services’ intent State agencies use the prequalified vendors as potential bidders while complying with competitive procurement requirements established by contracting laws, rules and procedures. State agencies are not limited to the prequalified vendors identified by General Services.

Employer/employee relationship concerns

Also, during the review of the General Services contracts used by ITD we identified several individuals assigned to technology projects that had worked for an extended period of time. Additionally, many of those individuals worked on projects alongside ITD employees and some of the services performed by the contract employees included services that could be performed by ITD employees, such as strategic planning, meeting facilitation, information technology consulting and preparation of reports and newsletters. Circumstances similar to this have resulted in lawsuits that culminated in the employer providing benefits to the contractors because the test of employer/employee relationship was not satisfied.

The ITE Contracting Officer has recognized such relationships could cause some problems related to the appearance of employer/employee relationships and the area is one that needs to be better monitored and controlled. Therefore, the Contracting Office has been developing a process for obtaining, monitoring, controlling and evaluating services obtained through the General Services contracts for information technology consulting and staff augmentation.

Recommendation – When procuring consulting or technical services for specific projects, ITE should use a competitive process to ensure the best value is obtained. The competitive process may include the use of prequalified vendors identified by General Services.

In addition, ITE should continue to develop a system to adequately address employer/employee relationship concerns.

FINDING 9 – Payments for immigration services

As illustrated in **Schedule 1**, ITD paid the Davis Law Firm a total of \$15,770 during fiscal years 2001 through 2003. Of this amount, \$14,938 was related to immigration services for two individuals.

The initial correspondence from the law firm regarding the immigration services was dated June 7, 2001 for each of the individuals. One individual was subsequently hired by the ITD on June 11, 2001. According to electronic mail correspondence attached to the initial payment for services, the individual had been employed by Merit Resources, a professional services organization providing staff augmentation services to ITD.

The second individual was hired by ITD on August 31, 2001. He had previously been employed by Horizon Computer Consulting. Neither individual was an employee of ITD when the immigration services were initiated by the Department.

According to a representative of the Attorney General's Office, there are no statutes or rules that allow the State of Iowa to incur costs for immigration services of individuals.

Recommendation – Because there are no statutes or rules allowing costs for immigration services, state agencies should not incur such costs.

**Department of Administrative Services
Information Technology Enterprise**

Schedule

Department of Administrative Services
Information Technology Enterprise

Service Providers Reviewed

Service Provider	Included in detailed review	Reviewed in less detail	Type *	Service Contract(s)		
				Not documented in contract file	Purpose of Contracts Reviewed	Duration (1)
ABC Virtual Communications	-	X	B	X	Information technology consulting and staff augmentation	Fiscal years 2001 - 2003
Accelio/JetForm Corporation	X	-	A	-	Electronic forms initiative consulting: Develop templates, build transformation definition files, install and test templates on-site and provide knowledge transfer.	October 2000 - December 2001
American Computer Services	-	X	B	X	Information technology consulting and staff augmentation	Fiscal years 1999, 2000, 2002 and 2003
American Management Systems	-	X	C	-	Statewide Enterprise Resource Planning (ERP) System, I3 project	September 30, 2002 through May 2, 2005
American Red Cross (IAIRS)	-	X	A	-	Resource House project	6/19/2001 - 8/31/2001
Application Design Services	-	X	B	X	Information technology consulting and staff augmentation	Fiscal years 1999 - 2003
Aramark Uniform Services Inc.	-	X	C	-	Uniform cleaning services	Fiscal year 2000 - 2003
Beechwood Computing Ltd.	X	-	A	-	Java programming services for Campaign Finance project	12/1/01 – 12/21/01
Braun Consulting Inc.	X	-	A	-	Implementation and installation of Clarify eSupport, ClearHelpDesk and FTS software	7/1/01 – 9/30/01
Cap Gemini America/Sogeti USA LLC	-	X	B	X	Information technology consulting and staff augmentation	Fiscal years 1999 - 2003
Center for Digital Government	-	X	A	-	Digital Government subscriptions	Fiscal years 2000 - 2003
Compaq Comptuer Corporation	-	X	A	-	Consulting services related to Identity Security Database project	Fiscal year 2003
Computer Services Inc.	X	-	A	-	Computer media duplication and distribution services	4/24/2000 - 6/30/2004
Covansys	-	X	B	X	Information technology consulting and staff augmentation	Fiscal year 2002
Davis Law Firm	-	X	A	-	Immigration services for individuals working for information technology consulting companies under contract with ITE	Fiscal year 2001 - 2003
Edgelogic Systems Inc.	-	X	B	X	Information technology consulting and staff augmentation	Fiscal year 2001 - 2002

Total Approved (5)	Total Paid to Service Provider through June 30, 2003 (5)	Total Paid to Service Providers by Fiscal Year				
		1999	2000	2001	2002	2003
(2)	\$ 591,293	\$ -	-	546,310	30,503	14,480
\$ 106,640	103,552	-	-	12,563	90,989	-
(2)	514,929	83,326	1,488	-	276,120	153,995
9,447,678	1,507,268	-	-	-	-	1,507,268
117,000	24,630	-	-	-	24,630	-
(2)	311,525	98,579	91,374	53,618	39,539	28,415
(2)	1,342	-	417	406	279	240
\$55 per hour estimated \$4,400 on PCQ	16,500	-	-	-	16,500	-
\$124,800 + approved expenses	145,438	-	-	-	145,438	-
(2)	873,028	332,557	25,481	6,840	275,830	232,320
(2)	14,350	-	5,000	5,000	4,000	350
15,000	15,000	-	-	-	-	15,000
various fees for CD duplication	8,071	-	727	2,288	2,224	2,832
(2)	6,000	-	-	-	6,000	-
(2)	15,770	-	-	4,778	2,593	8,399
(2)	111,995	-	-	88,764	23,231	-

Department of Administrative Services
Information Technology Enterprise

Service Providers Reviewed

Service Provider	Included in detailed review	Reviewed in less detail	Type *	Service Contract(s)		
				Not documented in contract file	Purpose of Contracts Reviewed	Duration (1)
Enterprise Iowa Inc.	X	-	A	-	Facilitation, coordination, project management, research, administrative support, and report and newsletter preparation services related to digital government and 100% E projects	April 24, 2000 through June 30, 2003
Expense Reduction Corporation	X	-	A	-	Assist ITE in contract negotiations to reduce expenditures	2/28/2002 – 2/27/2004
FormSoft Group Ltd.	X	-	A	-	Information technology consulting and development relating to workflow and implementation of enterprise-wide forms automation projects	9/10/02 – 9/9/03
Gartner Group Inc.	X	-	A	-	Access to information technology research information and advisors	2/1/2001 - 1/31/2004
Geoanalytics Inc.	X	-	A	-	GIS services and consulting on a project by project basis: Initial project – construction of a Statewide GIS Resource Guide	4/1/2000 – 12/31/2000
Harvard University	X	-	A	-	E-Government Executive Education Project	10/22/01 – 10/21/02
Horizon Computer Consulting Inc.	X	-	B	X	Computer consulting services	Fiscal year 2001
IBM Corporation	-	X	B & C	-	Information technology consulting and staff augmentation	Fiscal year 2002 - 2003
Integrated Justice Information Systems Institute	X	-	A	-	Iowa's Criminal Justice Information Systems Integration Strategic Planning team	July 16, 2002
Iowa Interactive Inc.	X	-	A	X (3)	Provide Iowa Access network management services and related technology consulting, programming, application design and development	April 23, 1998 through September 30, 2005
James Bengston	-	X	A	X	Analyze sample databases, write updates, create test documents, test and debug agent, modify agent in multiple address books	Fiscal year 2002 - 2003

Total Approved (5)	Total Paid to Service Provider through June 30, 2003 (5)	Total Paid to Service Providers by Fiscal Year				
		1999	2000	2001	2002	2003
634,921	658,773	-	28,045	166,730	319,746	144,252
29,900	29,900	-	-	-	29,900	-
81,237	36,818	-	-	-	-	36,818
168,900	168,900	-	-	76,900	60,000	32,000
58,000	57,959	-	2,250	50,430	5,279	-
15,000	15,000	-	-	-	10,417	4,583
(2)	8,976	-	-	8,976	-	-
(2)	338,857	-	-	-	281,845	57,012
1,500	1,500	-	-	-	-	1,500
4,200,000 (4)	3,712,002	649,999	729,487	560,385	564,360	1,207,771
(2)	475	-	-	-	400	75

Department of Administrative Services
Information Technology Enterprise

Service Providers Reviewed

Service Provider	Included in detailed review	Reviewed in less detail	Type *	Service Contract(s)		
				Not documented in contract file	Purpose of Contracts Reviewed	Duration (1)
Jean M. Baumann/JMB Consulting/Present Dynamics Inc.	X	-	A	-	Consulting and facilitation services related to the new department structure and consulting services based on emerging department needs	3/1/00 -12/31/00 and 7/1/01 - 6/30/03
Koch Financial Corporation	-	X	C	-	Information technology technical consultants	Fiscal year 2003
Midland Systems Integration	-	X	B & C	X	Information technology consulting and staff augmentation	Fiscal year 2002 - 2003
Modern Solutions Inc.	-	X	B	X	Information technology consulting and staff augmentation	Fiscal year 2003
Modis	-	X	B	X	Information technology consulting and staff augmentation	Fiscal year 1999, 2000, 2002 and 2003
Net Integrated Consulting	X	-	A	-	Open-System Team-support and mentoring services for Active Design and Exchange 2000	1/6/2003 - 3/7/2004
NOA Global Inc.	X	-	A	-	Organizational Development consulting services	7/1/01 - 6/30/02
Public Resource Services	X	-	A	-	Accelio and Adobe Project Management Services and other related information technology projects as assigned	2/8/02 - 12/31/03
Quality Consulting Inc.	-	X	B	X	Information technology consulting and staff augmentation	Fiscal year 2001 - 2002
Ranier Technology	-	X	B	X	Information technology consulting and staff augmentation	Fiscal year 2003

Total Approved (5)	Total Paid to Service Provider through June 30, 2003 (5)	Total Paid to Service Providers by Fiscal Year				
		1999	2000	2001	2002	2003
\$250/hour or \$2,000/8 hour day + expenses; discounted when reached certain \$ levels	144,084	-	7,180	-	16,161	120,743
(2)	336,876	-	-	-	-	336,876
(2)	64,366	-	-	-	52,866	11,500
(2)	124,800	-	-	-	-	124,800
(2)	142,404	114,524	10,150	-	15,525	2,205
\$15,000 plus additional work approved at \$75/hour	17,156	-	-	-	-	17,156
\$200/hour or \$1,500/day + approved expenses; maximum of \$6,000	6,000	-	-	-	6,000	-
102,000	94,457	-	-	-	36,666	57,791
(2)	380,265	-	-	165,601	214,664	-
(2)	18,760	-	-	-	-	18,760

Department of Administrative Services
Information Technology Enterprise

Service Providers Reviewed

Service Provider	Service Contract(s)					Duration (1)
	Included in detailed review	Reviewed in less detail	Type *	Not documented in contract file	Purpose of Contracts Reviewed	
Red 5 Interactive Inc.	-	X	C	-	Redevelopment of Commerce's ABD web site in order to provide public access to information in a timely and efficient manner	Fiscal year 2002
Renaissance Worldwide IT	X		B	X	Information technology consulting and staff augmentation	Fiscal year 2000 - 2002
Robert Half International Inc.	-	X	B	X	Information technology consulting and staff augmentation	Fiscal year 1999 - 2003
RSM McGladrey, Inc.	-	X	A	-	Enterprise Information Technology Assessment services, Web page development, Intranet server installation and configuration, Administrative rules project, etc.	Fiscal year 2000 - 2002
Technical Consultants International LLC	X	-	A	-	Provide electronic JetForms training	7/16/2001 – 10/15/2001
Technisource Inc.	-	X	B	X	Information technology consulting and staff augmentation	Fiscal year 2002 - 2003
URL Intergration	X	-	A	-	Information Technology consulting, development and implementing integrated justice systems and case management systems	November 4, 2002 - November 3, 2003

Number of service providers reviewed (total "X's")

20 24

Total Paid to Service Providers

*** Type definition**

A = Service contract executed directly with service provider

B = Information technology consulting or staff augmentation services used under a General Services contract through approved work authorizations or project proposals.

C = More specific information technology services used under a General Services contract through approved work authorizations or project proposals.

31

Department of Administrative Services
Information Technology Enterprise

Service Providers Reviewed

Notes:

- (1) - If service contract documentation was not available or all-inclusive to show duration, the fiscal years that payments were made to the service provider were noted.
- (2) - Not readily available due to incomplete or lack of contract file documentation.
- (3) - The service contract with Iowa Interactive Inc. was documented, but a copy of the related final signed copy of the Memorandum of Understanding (MOU) with the Department of Transportation was not included in the contract file. According to ITE staff, the MOU had not been signed by ITE and DOT but a final signed copy will be obtained.
- (4) - The Iowa Interactive Inc. contract amount is estimated as of June 30, 2003 based on available contract file documentation. The contract is currently being renegotiated.
- (5) - The total approved and total paid to service provider only includes amounts from documentation made available to us by ITE and is only provided for the time periods and contracts included in our examination.

Department of Administrative Services
Information Technology Enterprise

Staff

This review was conducted by:

Annette K. Campbell, CPA, Director
Cynthia L. Weber, CPA, Manager
Mark C. Moglestad, CPA, Senior Auditor
Shawn P. Limback, CPA, Staff Auditor
Heather B. Allen, Staff Auditor
Jedd D. Moore, Assistant Auditor

A handwritten signature in black ink, reading "Tamera Kusian". The signature is written in a cursive style with a large, stylized initial 'T'.

Tamera S. Kusian, CPA
Deputy Auditor of State

**Department of Administrative Services
Information Technology Enterprise**

Appendices

Department of Administrative Services
Information Technology Enterprise


Copies of Selected Communications Regarding Leased Space



THOMAS J. VILSACK
GOVERNOR

SALLY J. PEDERSON
LT. GOVERNOR

INFORMATION TECHNOLOGY DEPARTMENT
RICHARD J. VARN, DIRECTOR
CIO, STATE OF IOWA

To: Barb Bendon, Department of General Services
From:  Tom Shepherd, Information Technology Department
Subject: Request for Leased Space
Date: 6/20/00

Memorandum

Reason for Request: The passage of recent legislation created the Information Technology Department (ITD) and has established the new Uniform Electronic Transactions Act, which places significant requirements on state government to prepare for, and engage in, electronic commerce. This, along with other reengineering and technological changes in state government, has significantly added to our roles responsibilities.

Added to this is a worldwide shortage of trained information technology professionals that is exacerbated by the acute labor shortage in Iowa. We find that the most effective way to deal with this problem is to dramatically increase the number of interns and qualified seasonal employees working with ITD staff. This helps us to extend the productivity of our limited FTEs and provide career development opportunities for people engaged in a course of study related to our business requirements.

New or changed responsibilities and functions for ITD include, but are not limited to, the following:

- We are in the process of dissolving a contract with Iowa Interactive for the provision of Web services to state government and assimilating their staff and functions within ITD in order to provide more responsive services. The IOWAccess Web servers will be moved from the Teachout Building to the B Level, Hoover Building server farm.
- The consultant hired to study best practices and make recommendations for the creation of the Information Technology Department, the Center for Digital Government, recommended the creation of an information technology research and development group. The Chief Information Officer (CIO), Richard Varn, has decided to follow this recommendation and create the Office of IT Innovation. This new unit will conduct research and operate a laboratory for the exploration and deployment of new and emerging technologies.

HOOVER BUILDING-LEVEL B / DES MOINES, IOWA 50319-0141
PHONE (515) 281-5503/FAX (515) 281-6137

Department of Administrative Services
Information Technology Enterprise

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- The ITD server farm is expanding to provide a greater number of services to a larger customer base. The Judicial Branch of government will be contracting for a number of Web-based services from ITD. We will need to increase staffing to support this and other contracts related to the server farm.
- The establishment of a revolving fund and certain other financial parameters placed on us by the legislation creating the department will require at least one additional FTE in the business and finance staff. Increased involvement with reviews of IT procurements across the enterprise may also require an additional FTE.
- Development of an electronic commerce business and strategic plan. This will include the planning and implementation of the necessary e-commerce infrastructure (servers, networking, developers, etc.) necessary to support state government's e-commerce business requirements.
- Research and development of comprehensive enterprise information technology standards. The effective functioning of an enterprise the size of state government in the twenty-first century requires that we become a standards-based organization.
- ITD has been asked by the Department of Transportation to implement and provide ongoing support to a new agency-wide e-mail system. This will require the addition of two new ITD FTEs.
- The establishment (through legislation) of a new enterprise project office to provide for information technology auditing and standards enforcement. This will involve the reassignment of one current FTE and the addition of one new FTE.

ITD plans to add a significant number of interns (30 to 50 total) based on our business requirements and the availability of qualified applicants. As stated above, we are also increasing FTEs based upon service agreements to service dedicated, billable customers.

Proceed to next page.

Appendix A

Department of Administrative Services Information Technology Enterprise

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The divisions ITD proposes moving off-complex and the number of people in each division associated with this proposal:

Name	Job Classification, Misc. Information	Number of FTEs	Office Space (ft ²) per person	Total Space (ft ²)
Rich Varn	Department Director	1	300	300
Planning and Standards				
Dave Arringdale	Governor's Appointee	1	160	160
Lisa Andersen	FT Technical Support	1	80	80
Doug Kern	FT Technical Support	1	80	80
Wes Hunsberger	FT Technical Support	1	80	80
Kip Peters	FT Technical Support	1	80	80
Linda Plazak	FT Technical Support	1	80	80
Rebecca Walsh	FT Technical Support	1	80	80
Ken Adrian	FT Technical Support	1	80	80
P&S Interns	PT Technical Support	4	48	192
Office of Digital Government				
Dan Combs	Division Administrator	1	160 140	140 160
Clint Clark	FT Technical Support	1	80	80
Polly	FT Technical Support	1	80	80
Molly	FT Technical Support	1	80	80
Robin	FT Technical Support	1	80	80
Lowell Sneller	FT Technical Support	1	80	80
Ty Smedes	FT Technical Support	1	80	80
Ray Helland	FT Technical Support	1	80	80
DG Interns	PT Technical Support	15	48	720
Office of IT Innovation				
Tom Shepherd	Division Administrator	1	140	140
ITI Intern	PT Technical Support	3	48	144
Special Purpose Areas				
Conference Room	20 - 25 People (18'X20')		360	360
Conference Room	12 - 15 People (15'X18')		270	270
IT Innovation Lab Area	15'X20'		300	300
Copier, Printer, etc.	10'X20'		200	200
Storage, supplies	8'X8'		64	64
Reception	15'X15'		225	225
Break Room	15'X20'		300	300

Dedicated Square Feet **4,635**

Four people currently housed at the Teachout building are included in the Office of Digital Government (listed above). These Iowa Interactive employees will be put on the ITS table of organization as state employees in FY01. Due to the number of problems attendant to the Teachout Building that preclude it from being used for public employees, Iowa Interactive has been told that the remaining term of the lease for that building is an issue that needs to be resolved between them and the owner of the property. Under the circumstances, ITD will accept no responsibility for the lease.

Department of Administrative Services
Information Technology Enterprise

Copies of Selected Communications Regarding Leased Space

A statement that funds for the project are available, the source of funding, and the estimated budget amount:

Annual Cost Calculation for Requested Space

Total Office Space (Dedicated square feet times 1.3)	6,025.50
Price per square foot per year \$	14.00
Total Annual Cost \$	84,357.00

In addition to the lease cost for the space, it is anticipated that there will be additional costs for modular office furniture, chairs, phones, LAN wiring, etc. We anticipate total FY01 costs (lease, moving, site preparation, and operational costs) of approximately \$220,000. This will be paid through a combination of appropriations (IOWAccess appropriation and ITD operational appropriation) and receipts for billed services generated by a number of the employees in the leased space.

Desired completion date/date of occupancy:

ITD is ready to move into the leased space immediately. Recognizing that there will be a certain amount of site preparation and setup required, we would anticipate being able to occupy the space on or about September 1, 2000.

Name, title and telephone number of the contact person assigned to handle the project:

Tom R. Shepherd
Chief Financial Officer
Information Technology Department
(515) 281-3971 Office
(515) 577-5660 Cell
tom.shepherd@its.state.ia.us

Department of Administrative Services
Information Technology Enterprise

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**DEPARTMENT OF GENERAL SERVICES
SPACE ALLOCATION FORM**

Agency Name Information Technology Department

Present Location B Level, Hoover Building

Contact Person Tom Shepherd, 281-3971

SPACE REQUIREMENTS

1. Personnel Space

Department Director (Private)	(300 s.f.) x (1)	300	✓
Gubernatorial Appointee	(160 s.f.) x (1)	160	✓
Division Administrator (80" open office)	(140 s.f.) x (2)	280	✓
Bureau Chief (62" open office)	(100 s.f.) x (0)	0	
Support Personnel (Receives visitors, etc.)	(80 s.f.) x (14)	1,120	✓
Part time Support Personnel (Interns)	(48 s.f.) x (22)	1,056	✓
TOTAL POSITIONS	40		
TOTAL SQUARE FOOTAGE FOR PERSONNEL		2,916	

18607

2. Special Facilities

Conference Room(s)	One (360 s.f.) AND One (270 s.f.)	630
Computer Room (Fill in the electrical / cooling requirements)		
Computer Lab		300
Reception Area		225
Hearing Room(s)	(s.f.) x ()	
Copy Area(s) (Electrical / cooling requirements)	(10 s.f.) x (20)	200
File Area(s)	(s.f.) x ()	
Storage Area		64
Break Area (Electrical / cooling requirements)		300
Other		

Note: Please list any specialized equipment that will affect space needs.

TOTAL SQUARE FOOTAGE FOR SPECIAL FACILITIES 1,719

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Information Technology Enterprise

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3. Agency Square Footage Subtotal (Personnel + Special Facilities)

Add Total Square Footage for Personnel and Special Facilities 4,635

TOTAL AGENCY SQUARE FOOTAGE (Multiply Subtotal by 1.3) 6,026

ELECTRICAL / COOLING REQUIREMENTS

(Please attach separate sheets if needed)

Copier(s)		Amps / unit	_____
Printer(s)		Amps / unit	_____
Break Area	BTUs / unit	Amps / unit	_____
Computer Room	BTUs / unit	Amps / unit	_____
Other Special Equipment Requirements (Please List)			
_____	BTUs / unit	Amps / unit	_____
_____	BTUs / unit	Amps / unit	_____
_____	BTUs / unit	Amps / unit	_____
_____	BTUs / unit	Amps / unit	_____

COMMUNICATION REQUIREMENTS

(Please attach separate sheets if needed)

Department of Administrative Services
Information Technology Enterprise

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Thomas J. Vilsack
GOVERNOR
Sally J. Pederson
LT. GOVERNOR



MEMORANDUM

Date: July 19, 2000

To: Richard Haines, Director
Department of General Services

From: Tim Ryburn, Administrator *Tim Ryburn*
Building Services Division

Re: ITD Office Space

As part of the space allocation justification for ITD on complex, members of my space team and myself met with Tom Shepherd from ITD to revisit how the vacated space on B-Level in the Hoover Building will be best used once they move to a leased location.

It is our understanding that ITD is planning on utilizing the vacated office space to create and expand a variety of new and existing programs. A program that you may be familiar with is the Electronic Transactions accepted by the year 2003. This program will involve ITD hiring new programmers and developers. In addition to the already increasing day-to-day programming and computer support for the legacy system, ITD will be expanding the training and education class rooms that are necessary to educate current and new system users. Another area of growth that ITD is experiencing is in their Web development and Research.

Tom estimates that as a result of the new and expanding programs, they would need new and additional office space for approximately 80-100 employees and therefore, this being their justification for leased space.

I have enclosed a copy of the ITD space justification request, similar to what was done for off complex to justify the space on B-Level of the Hoover Building.

During our walk through of ITD's space, we observed some vacant offices that ITD was in the process of filling with new hires and some additional space that could be made available with new reconfigurations of space. However, this is minimal.

I believe ITD is justifying the new space allocation in the Hoover Building through the projection of 80-100 new hires and additional program growth. During your meeting with DOM, It would be helpful to confirm the number of 80-100 new employees and additional program growth for ITD.

Department of Administrative Services
Information Technology Enterprise

Copies of Selected Communications Regarding Leased Space

Page 2.
ITD Space Allocation

Another item, which is more of a policy issue, deals with providing office space, (including HVAC, custodial and utilities) for contract vendors, such as IBM on complex. I know other state agencies are providing space for PEO positions, however, I am unable at this time to establish how wide spread this practice may be for contract vendors such as IBM and/or if this is in the best interest of the State of Iowa. Since this is a policy issue, I would defer this issue to you for guidance and direction.


If you have additional questions, please let me know.

C: Doran Praisner
Barbara Bendon

Department of Administrative Services
Information Technology Enterprise

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Tim Ryburn

 **From:** Shepherd, Tom <ITS>
Sent: Wednesday, July 19, 2000 5:27 PM
To: Tim Ryburn
Cc: VonRuden, Marsha <ITS>
Subject: Space Requirements for ITD

Thank you for meeting with me on Monday (7/17) to discuss the space needs for the Information Technology Department (ITD). As I told you, we are at the forefront of an electronic explosion in online, real time government information access and electronic services. We have a number of initiatives underway that will affect our space requirements both at the Hoover Building, B Level and the new building at 410 S.W. 7th.

We have recently dissolved a contract with Iowa Interactive for the provision of Web services to state government and assimilating their staff (4 FTEs) and functions within ITD in order to provide more responsive services. The IOWAccess Web servers are being moved from the Teachout Building to the B Level, Hoover Building server farm. These FTEs are included in the employees that will be moving to the new building.

The Chief Information Officer (CIO), Richard Varn, has decided to follow this recommendation and create the Office of IT Innovation (with three FTEs and lab space). This new unit will conduct research and operate a laboratory for the exploration and deployment of new and emerging technologies. It will also be contained in the new building.

The ITD server farm on B Level, Hoover is expanding to provide a greater number of services to a larger customer base. The Judicial Branch of government will be contracting for a number of Web-based services from ITD. We plan to increase staffing to support this and other contracts related to the server farm.

ITD has been asked by the Department of Transportation to implement and provide ongoing support to a new agency-wide e-mail system to service their entire agency. This will require the addition of two new ITD FTEs.

The establishment (through legislation) of a new enterprise project office to provide for information technology auditing and standards enforcement. This will involve the reassignment of one current FTE and the addition of one new FTE.

ITD plans to add a significant number of interns (50 to total) based on our business requirements and the availability of qualified applicants. As stated above, we are also increasing FTEs based upon service agreements to service dedicated, billable customers.

In addition to the plans discussed above, ITD will need to add additional networked lab space (classrooms with personal computer workstations and multimedia equipment). We are also anxious to work the Department of General Services in developing the type of facilities in the Capitol Complex (family oriented activities, wellness, and state-of-the-art conferencing facilities) I discussed with you in our recent meeting.

If you need any additional information, please let me know.

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Information Technology Enterprise**

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Barbara Bendon

From: Barbara Bendon
Sent: Monday, October 02, 2000 11:38 AM
To: Shepherd, Tom <ITS>
Cc: Varn, Richard <ITS>
Subject: FW: lease

Tom:

Based on the e-mail from Cynthia Eisenhower (see below), I am prepared to draft the lease agreement according to the guidelines indicated in her e-mail of September 29. Please advise if you would you like me to proceed.

Thanks

Barbara

-----Original Message-----

From: Eisenhower, Cynthia <IDOM>
Sent: Friday, September 29, 2000 5:32 PM
To: Varn, Richard <ITS>
Cc: Richard Haines; Shepherd, Tom <ITS>
Subject: lease

Hi, Rich.

I tried to give you a call, but couldn't get through at this late time of day, so I'm afraid I'm sending an impersonal e-mail to deliver a Grinch-like message. Please forgive me.

DGS asked IGOV/IDOM for guidance on your lease "build out" costs since they were exceeding the landlord's contract, and customary build out costs of \$20 square foot. Ten divisions have moved into the building with build out costs within \$20 sq ft. After gathering relevant information, it appears to me that many of the additional features you are requesting are indeed directly related to functionality required of your unique department. These costs above the \$20/sq ft. include:

- * mechanical/electrical and common area cost that brings the build out costs to \$25.26.
- * the 8X8 aluminum and glass overhead door for the innovation lab at a cost of \$3,080
- * electrical projection screen at an added cost of \$2,055

The following additional items are not defensible increases tied directly to functionality of your department:

- * shower at an added cost of \$5,000
- * white marker board wall at an added cost of \$1,349
- * thumb print scanner at an added cost of \$10,000
- * 15X5 foot high glass window at innovation lab at an added cost of

Department of Administrative Services
Information Technology Enterprise

Copies of Selected Communications Regarding Leased Space

\$1,500

- * white noise at an added cost of \$9,527
- * bike rack at \$500

You may certainly appeal this judgment to a higher authority. I am sending DGS a copy of this note to provide them with guidance on resolving the lease.

Cacc suggested I also share with you that he and Stephanie would like your help understanding how your move off campus will impact your ability to serve your customers, most of whom are located on the capitol complex.

Finally, it would be helpful for me to understand the sources of funds for your move. Is it built into your operations budget or will the costs be included in billings to agencies? I imagine you have already anticipated all the inquiries you will receive on financing the move. Thank you for your understanding.

Cindy

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Pictures of ITD Leased Office Space



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Pictures of ITD Leased Office Space

