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Rob Sand
Auditor of State

October 16, 2020

Dave Roederer
Iowa Department of Management
1007 E. Grand Ave
Des Moines, 50319

Re: CARES Act funds

Director Roederer:

As a part of our obligation to audit the Iowa Governor's Office and the Iowa Department of Management, our Office has reviewed two of the Governor's decisions regarding the spending of Coronavirus Relief Fund (CRF) dollars. The CARES Act, which created and funded the CRF, gives states until the end of calendar year 2020 to spend their allotted funds, or the funds will be reclaimed. In addition, spending that does not comply with the CARES Act use restrictions, if not corrected by the end of the calendar year, will have to be repaid to the federal government. Any such repayments will result in a net loss to Iowa taxpayers. The CARES Act provides that payments from the Fund may only be used to cover costs that:

1. are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);
2. 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
3. were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020.

We are providing this guidance now to ensure the Governor has an opportunity to correct identified spending that does not comply or may not comply with use restrictions. We have also consulted with The United States Treasury Office of the Inspector General to confirm our conclusions.

Workday Funding

The Governor has chosen to spend \$21 million on Workday, an HR/accounting computer system intended to replace the State's legacy mainframe system. The State contracted with Workday in 2019, which put in place at that time a regular payment schedule. The CRF dollars would be used to meet those regular payments contemplated in the 2019 contract. To justify the expenditure, the Governor's Office stated "with Workday, 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."

These expenditures are not "due to the public health emergency." The State signed a contract in 2019 for these expenditures prior to the emergence of COVID-19. The statement regarding how Workday affects state employees, a portion of whom are themselves working on the public health emergency, is essentially a restatement of the purpose of Workday in general, which did not change with the emergence of COVID-19.

That this expenditure does not meet the first requirement means that there is no need to address whether it meets the other two requirements. Spending \$21M on Workday is not an appropriate use of CRF funds. If the Governor does not redeploy these dollars to a lawful use, they will have to be repaid to the federal government. That will result in a \$21M loss for Iowa taxpayers.

Governor's Staff Salaries

We have also reviewed Governor's decision to spend \$448,449.00 of CRF dollars on salaries for the Governor's staff. General defenses of this decision have centered on the idea that CRF dollars can be used for salaries. That is not entirely accurate. Official guidance states "payroll expenses for public safety, public health, health care, human services, and similar employees whose services are substantially dedicated to mitigating or responding to the COVID19 public health emergency" is eligible, but "payroll or benefits expenses for employees whose work duties are not substantially dedicated to mitigating or responding to the COVID-19 public health emergency" is not eligible. More specifically, indirect costs cannot be covered. A featured example of coverable costs "includes, but is not limited to, costs related to disbursing payments from the Fund and managing new grant programs established using payments from the Fund."

Salaries may qualify only when certain conditions are met. The work the Governor's staff are doing that is directly related to the pandemic must be tracked separately from their ordinary work, and supported with appropriate documentation. Only then may that portion of their salaries qualify, and not if the work is only indirectly related to the pandemic.

Most importantly, whether those conditions are met will only be judged in hindsight, upon an audit of the timekeeping records and supporting documentation. That means an inadequate focus on pandemic by those employees, or an indirect

focus, and/or an inadequate record-keeping effort, could result in those funds also having to be repaid to the federal government. That would result in a loss for Iowa taxpayers.

There are many direct pandemic relief methods to spend CRF dollars that do not risk a net loss to Iowa taxpayers upon audit, and that more directly help Iowa address the pandemic. Given that risk, and the more directly beneficial alternatives that do not pose a risk, this Office recommends re-deploying those funds.

The Small Business Relief Grant Fund is one example of an appropriate re-deployment; purchasing PPE for essential workers, expanding testing and/or contact tracing efforts, and increasing staffing at the State Hygienic Lab to process COVID-19 tests more are others to consider as ways to redeploy the \$448,449.00 prior to the close of the calendar year.

Please contact us with any questions. As I have written consistently since March, this Office stands ready to assist on the pandemic response if you have any need.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand". The signature is stylized with a large, looped "R" and "S".

Rob Sand
Auditor of the State of Iowa:

cc: Richard Delmar, Treasury Dept
Daniel Kowalski, Treasury Dept
Joel Lunde, IDOM