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NEWS RELEASE

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FOR RELEASE February 3, 2004

Auditor of State David A. Vaudt today released a report on the Innovations Fund administered by the Department of Management. The review was conducted in accordance with Chapter 11 of the *Code of Iowa* to determine whether the loans provided from the Innovations Fund have complied with guidelines set forth in the *Code*, loan applications and loan agreements. The Innovations Fund was established by a $1,000,000 appropriation in 1995 to stimulate and encourage innovation in state government.

Between July 1, 1995 and June 30, 2003, ten loans were awarded from the Innovations Fund. Nine of the loans have been or are in the process of being repaid. The loan to the Department of Inspections and Appeals has been forgiven. The following table summarizes the loans, principal repayments, the estimated savings/revenue amounts and scheduled repayments according to the loan agreements, and the actual amounts repaid as of June 30, 2003.

Department **Loan Description**	**Loan Amount**	**Principal Repayments**	**Total Estimated Savings/Revenue**	**Estimated Savings/ Revenue to be Paid**	**Actual Amount Paid**
Natural Resources Energy Efficient Improvements	$ 150,000	150,000	500,000	250,000	-
General Services Mail Processing System	291,645	291,645	299,600	149,800	23,347
Revenue and Finance Field Office Automation	275,355	275,355	Not identified	2,498,666	5,349,763
Iowa Comm. Network Improved Billing Process	111,000	111,000	37,650	18,825	18,825
Inspections and Appeals Applications Verification	429,426	41,145	705,284	352,642	-
General Services Fleet Management	300,000	228,166	196,000	98,000	-
Treasurer of State Software	598,682	287,430	Not identified	Not identified	-
Personnel Deferred Comp Match	330,000	227,401	Not identified	Not identified	-
Management Grants Management	277,070	-	Not identified	Not identified	-
Revenue and Finance Filing Reduction	103,375	-	Not identified	Not identified	-

Section 8.63 of the *Code* states, "As an incentive to increase state general fund revenues, an agency may retain up to 50% of the savings realized in connection with a loan from the innovations fund." The $5,391,935 savings/additional revenue amounts remitted by the agencies should have been deposited to the State's General Fund rather than the Innovations Fund. As illustrated by the table, the vast majority of the savings/additional revenue realized resulted from the Department of Revenue and Finance field office automation project. The term of the loan for the project expired on June 30, 2001. However, as a result of an agreement with the Department of Management, the Department of Revenue and Finance continued to remit 50% of additional revenues to the Innovations Fund and retain the remaining 50%. Between June 30, 2001 and June 30, 2003, the Department remitted $2,156,062 of additional revenue to the Innovations Fund and retained an equal portion.

If the agreement had not been extended, and if all savings/additional revenue had been deposited to the State's General Fund rather than the Innovations Fund, $7,549,997 would have been deposited to the General Fund by June 30, 2003. Legislative transfers occurring prior to June 30, 2003 would offset this amount, resulting in a net General Fund increase of $4,504,946.

Vaudt recommended the Innovations Fund be operated as a revolving loan account with any resulting savings/related revenues and interest deposited to the State's General Fund rather than the Innovations Fund. With the addition of interest, the increase to the General Fund at June 30, 2003 would have totaled $5,039,532.

Vaudt also recommended several improvements in the administration, monitoring and enforcement of the terms of the loans made from the Innovations Fund. In addition, Vaudt recommended the Legislature consider whether the program has met its purpose as defined in the *Code*. One of the projects funded from the Innovations Fund was already established and operated by a non-profit corporation. Another project was funded to staff an existing function performed by a State agency.

A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at www.state.ia.us/government/auditor/reports.

# # #

A REVIEW OF THE
INNOVATIONS FUND PROGRAM
WITHIN THE
DEPARTMENT OF MANAGEMENT
FOR THE PERIOD JULY 1, 1995 THROUGH JUNE 30, 2003

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To the Governor, Members of the General Assembly, the State Innovations
Fund Committee and the Director of the Department of Management:

In accordance with Chapter 11 of the *Code of Iowa*, we have conducted a review of the Innovations Fund administered by the Department of Management. We have reviewed the program's activity for the period July 1, 1995 through June 30, 2003 and tested compliance with requirements of the *Code of Iowa*, loan applications and loan agreements. In conducting our review, we performed the following procedures:

(1) Reviewed relevant sections of the *Code of Iowa* and Acts of the General Assembly.

(2) Tested compliance with certain laws, regulations, policies and procedures pertaining to the administration of the Innovations Fund.

(3) Reviewed minutes of the State Innovations Fund Committee for significant actions.

(4) Reviewed loan applications submitted to the State Innovations Fund Committee and the Department of Management.

(5) Reviewed the loan agreements signed by the Department of Management and the agencies awarded loans.

(6) Reviewed semi-annual reports submitted to the Department of Management by agencies that received loans from the Innovations Fund.

(7) Reviewed documentation for estimated and/or actual savings or additional revenue, when available.

(8) Interviewed a representative of the Legislative Services Agency regarding the intent of the Legislative language that established the Innovations Fund.

(9) Interviewed representatives of agencies awarded certain loans.

Based on these procedures, we developed certain recommendations and other relevant information we believe should be considered by the Governor, the General Assembly, the State Innovations Fund Committee and the Department of Management.

We extend our appreciation to the personnel of the Department of Management and the state agencies that received loans for the courtesy, cooperation, and assistance provided to us during this review.

David A. Vaudt

DAVID A. VAUDT, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 18, 2003

Executive Summary

The General Assembly established the Innovations Fund to stimulate and encourage innovation in state government by providing loans to agencies that propose viable projects which would result in savings or additional revenue to the General Fund of the State. Proposals are submitted to the State Innovations Fund Committee which has statutory responsibility for awarding loans from the Fund. The Fund's accounting and administrative functions are under the control of the Department of Management.

We conducted our review of the Innovations Fund to determine whether loans made from the Fund complied with guidelines set forth in the *Code of Iowa* and the terms established in the Fund's loan applications and agreements.

Loan activity - The Fund received a one-time appropriation of $1,000,000 during the 1995 Legislative Session. The first loan proceeds were received in August 1996 by the Department of Natural Resources. Since then, nine additional loans have been awarded to seven agencies. The ten loans total $2,866,533. Four of the loans have been repaid, one was forgiven and the remaining five are currently being repaid.

Savings/Additional Revenue - The *Code of Iowa* allows an agency to retain up to 50% of the savings/additional revenue realized from the project. Savings or additional revenue was included in the terms of the loan agreements for only six of the ten loans. The estimated savings or additional revenue per the loan agreements to be paid by the agencies to the Innovations Fund totaled $3,367,933. One loan to the Department of Revenue and Finance accounted for $2,498,666 of the estimated savings/additional revenue.

As of June 30, 2003, savings/additional revenues of $5,391,935 had been realized for three of the loans. The savings/additional revenues were paid to the Innovations Fund. Based on our review of section 8.63 of the *Code*, savings or additional revenue amounts remitted by the agencies should have been deposited to the State's General Fund rather than the Innovations Fund.

Of the $5,391,935 of savings/additional revenue paid to the Innovations Fund, the Department of Revenue and Finance has paid $5,349,763 for additional revenue realized as a result of the field office automation project. The term of the Department's loan for the project expired on June 30, 2001. However, as a result of an agreement with the Department of Management, the Department of Revenue and Finance continued to remit 50% of additional revenues to the Innovations Fund and retain the remaining 50%. Between June 30, 2001 and June 30, 2003, the Department remitted $2,156,062 of additional revenue to the Innovations Fund and retained an equal portion.

- **Increases to the General Fund** - If the Department of Management had not extended the agreement with the Department of Revenue and Finance and if all savings/additional revenue had been deposited to the State's General Fund rather than the Innovations Fund, $7,549,997 would have been deposited to the General Fund by June 30, 2003. Legislative transfers totaling $3,043,051 would offset this amount, resulting in a net General Fund increase of $4,504,946.

  In addition, if the Innovations Fund had been operated as a revolving loan account, $534,586 of interest would have been deposited to the State's General Fund as well, resulting in a total increase of $5,039,532.

- **Lack of Review** - Because the Department of Management does not review or verify the actual savings/additional revenue generated by the agencies as a result of implementing the projects funded by the loans, we have no assurance the amounts remitted by the agencies are accurate or complete.

- **Unsupported changes** - By reviewing the loan agreements and applications, we determined the savings/additional revenue amount included in the loan agreements for six of the loans was less than the savings/additional revenues estimated in the applications. Documentation of how the amounts were calculated for the loan agreement or why it was different from the loan application is not maintained.

<u>Other Findings</u> - Several recommendations are included in the report to improve the administration, monitoring and enforcement of terms on the loans. It is difficult to determine whether the projects met the definition of “innovative” and whether the program has met the intent of the legislation that enacted it since only one of the loans has made a significant return on investment.

Legislative History of the Innovations Fund

Chapter 214 of the Acts of the Seventy-sixth General Assembly, 1995 session, established the Innovations Fund to provide an incentive to produce General Fund revenue and/or cost savings. The legislation is currently found in section 8.63 of the *Code of Iowa*. Section 8.63(1) of the *Code* states, "An innovations fund is created in the state treasury under the control of the department of management for the purpose of stimulating and encouraging innovation in state government by the awarding of repayable loans to state agencies."

Section 8.63(2) of the *Code* states, "The director of the department of management shall establish an eight-member committee to be called the state innovations fund committee. The committee shall review all requests for funds and approve loans of funds if the committee determines that an agency request would result in cost savings or added revenue to the general fund of the state. Eligible projects are projects which cannot be funded from an agency's operating budget without adversely affecting the agency's normal service levels. Projects may include, but are not limited to, purchase of advance technology, contracting for expert services, and acquisition of equipment or supplies."

Section 8.63(3 and 4) of the *Code* details the intent of the General Assembly as follows:

> "A state agency seeking a loan from the innovations fund shall complete an application form designed by the state innovations fund committee which employs a return on investment concept and demonstrates how state general fund expenditures will be reduced or how state general fund revenues will increase. Minimum loan requirements for state agency requests shall be determined by the committee. As an incentive to increase state general fund revenues, an agency may retain up to 50% of savings realized in connection with a loan from the innovations fund. The amount retained shall be determined by the innovations fund committee." (Acts of the Seventy-sixth General Assembly, 1995 session)
>
> "In order for the innovations fund to be self-supporting, the innovations fund committee shall establish repayment schedules for each innovation fund loan awarded. Agencies shall repay the funds over a period not to exceed five years with interest, at a rate to be determined by the innovations fund committee." (Acts of the Seventy-sixth General Assembly, 1995 session)
>
> "If the department of management and the *department of revenue and finance** certify that the savings from a proposed innovations fund project will result in a net increase in the balance of the general fund of the state without a corresponding cost savings to the requesting agency, and if the requesting agency meets all other eligibility requirements, the innovations fund committee may approve the loan for the project and not require repayment by the requesting agency. There is appropriated from the general fund of the state to the department of revenue and finance an amount sufficient to repay the loan amount." (Acts of the Seventy-eighth General Assembly, 1999 session)

**NOTE: The Department of Revenue and Finance was reorganized effective July 1, 2003. The Department of Administrative Services (State Accounting Enterprise) now has responsibility for this function of the Innovations Fund.*

Objectives, Scope and Methodology

Our review was conducted to determine whether the State Innovations Fund Committee, the Department of Management and agencies awarded loans from the State Innovations Fund are meeting the intent of the program established by the Legislature. We reviewed loan applications, minutes of the State Innovations Fund Committee's meetings, loan agreements and semi-annual reports for each of the ten loans made from the Innovations Fund. We tested compliance with requirements established by the *Code of Iowa*, loan applications, and loan agreements. We also reviewed all financial transactions involving the Innovations Fund from its creation through June 30, 2003.

We also reviewed the procedures performed by the Department of Management to monitor the loans awarded from the Innovations Fund. We did not verify the information submitted by the agencies awarded loans, nor did we determine if the agencies used loan proceeds in accordance with the terms of their respective loan agreements.

Effective July 1, 2003, several agencies went through a restructuring which resulted in a realignment of duties and department names. The following table summarizes the changes in the names of agencies that have received loans.

Table 1

Old Name	New Name
Department of Revenue and Finance	Department of Revenue
Department of General Services	General Services Enterprise*
Department of Personnel	Human Resources Enterprise*

*within the Department of Administrative Services

In this report, these agencies are referred to by their old name.

Background

The Department of Management (DOM) is responsible for administration of the Innovations Fund. As required by the *Code*, the Director of DOM has established an eight-member committee. The Committee is responsible for reviewing loan applications and selecting those which demonstrate potential to add revenue to the State's General Fund or result in a savings for the State. In addition, the Committee is responsible for establishing the terms of any loans granted from the Innovations Fund. An employee of DOM serves as the Innovations Fund Coordinator.

The Committee is composed of the Director and an employee of DOM, two members of AFSCME, an Iowa Finance Authority employee, the Director of the Department of Revenue (formerly the Department of Revenue and Finance), an employee of the Governor's Office, and a member of the State Police Officers' Council.

The Committee has established a standard application to be completed by an agency applying for a loan from the Innovations Fund. The application form has been used since November 1998. A copy of the form is included in **Appendix A**. While the form documents the applicant's projected net savings, it does not require the applicant to document any additional revenue which may be generated by the proposed project.

According to the Innovations Fund Coordinator, the Committee reviews the purpose, strategic goals and objectives of the proposed project, along with the projected savings or additional revenue, when evaluating applications. The Committee also assesses whether the agency can deliver its current service(s) in a more efficient and cost-effective manner with the implementation of the proposed project. According to the Fund Coordinator, written policies and procedures have not been developed to guide the Committee through the approval process.

The minutes of Committee meetings do not document the evaluation and approval process of applications in a detailed manner. While assessments performed by Committee members are not formally documented, an "Innovation Fund Application Review" form has been developed and is available, but not required, for Committee members' use. A copy of the form is included in **Appendix B**. When the forms are used to assess an application, they are not retained.

Once the Committee approves an application, an "Innovation Fund Promissory Note and Loan Agreement" is prepared and signed by the Directors of DOM and the agency awarded the loan. A copy of the promissory note and loan agreement is included in **Appendix C**. The loan agreement includes agency and DOM contact information, the principal amount of the loan, the interest rate and loan due date established by the Committee, a listing of the draw amounts and dates, and a table of principal and interest payments. In addition, the agreement includes statements that outline the terms of the loan, the more significant of which are:

- The agency agrees to use the loan proceeds to implement the approved project and for no other purpose without the express written consent of DOM.

- The agency agrees to implement the project by a given date. DOM may declare the agency in default if the agency fails to make timely, substantial, and material progress toward implementation of the project by the implementation due date or if the agency substantially discontinues or materially alters the project as outlined in the loan application. In that event, DOM may withhold further disbursements of loan proceeds to the agency until the breach has been cured. In the alternative, the agency may immediately repay all disbursed loan proceeds along with accrued interest.

- The agency agrees all outstanding principal and accrued interest shall be immediately due and payable if DOM declares the agency to be in default as a result of failing to make any payment when due.

- The agency agrees it is authorized to retain not more than 50% of the savings or additional revenue generated in connection with the loan and the remaining percentage of savings or additional revenue generated shall be repaid to the Innovations Fund.

- The agency agrees to make periodic project reports to DOM by the dates established in the agreement. These dates are typically established as January 31 and July 31.

Innovations Fund Activity and Committee Actions

Establishment of the Fund and Loans Awarded – During the 1995 General Assembly session, DOM received a one-time appropriation of $1,000,000 for the establishment of the Innovations Fund. At the initial meeting of the State Innovations Fund Committee on December 12, 1995, the Committee approved loans for four of fifty-nine applicants. According to minutes of the meeting, the Committee used the following criteria in making the loan selections:

- Benefits other State agencies
- Results in "hard" vs "soft" savings
- Proposes a creative or innovative idea
- Provides for continuing benefit
- Generates savings

The terms of the four loans included a five-year repayment schedule, interest equal to the five-year Treasury note interest rate, and a return to the Innovations Fund of 50% of savings/additional revenue realized. The approved loans are included in **Table 2**. The agencies' estimated savings/additional revenues, as stated on their loan applications, are also included in the table. While the loan to the Department of Human Services was approved, the agency did not request any proceeds from the approved loan.

Between December 1995 and June 30, 2003, the Committee awarded seven additional loans. The seven loans are also included in **Table 2,** along with the savings/additional revenue estimated by the agencies in their applications. A summary of each of the loans is included in a subsequent section of this report. All financial activity associated with the Innovations Fund is summarized in **Schedule 1**.

Table 2

	Department	Description	Loan Amount	Estimated Savings/Additional Revenue*
#^	Human Services	Purchase vehicles, operate patient transportation system	$ 83,000	$ 604,510
#	Natural Resources	Energy efficient improvements	150,000	1,700,000
#	General Services	Mail processing system	291,645	898,040
#	Revenue and Finance	Field office automation	275,355	Not identified
	Iowa Communications Network	Billing process	111,000	470,525
	Inspections and Appeals	Verification of assistance applications	429,426	3,137,998
	General Services	Fleet management	300,000	506,000
	Treasurer of State	College Savings Iowa software	598,682	193,868
	Personnel	Deferred compensation match	330,000	222,605
	Management	Grants Enterprise Management System (GEMS)	277,070	Not identified @
	Revenue and Finance	Filing reduction initiative	103,375	70,000

* - Per application prepared by agency.

- Approved during initial meeting of the State Innovations Fund Committee.

^ - Loan was approved, but not drawn down by the Department of Human Services. Current DHS representatives cannot provide an explanation of why the project was not implemented.

@ - Per the Fund Coordinator, additional information identifying $346,940 of new indirect cost recovery funds was provided at the Committee's request after the application was submitted.

Loan Repayments – As illustrated in **Schedule 1**, of the $2,866,553 loaned to agencies, $1,612,143.08 of principal has been repaid to the Innovations Fund. At June 30, 2003, four of the ten loans were repaid, three were still in repayment status and two had not yet had payments due. In addition, the loan to DIA was forgiven.

Savings/Additional Revenue – Section 8.63(3) of the *Code of Iowa* requires agencies seeking a loan to complete an application form that demonstrates State expenditures will be reduced or revenues will be increased. The *Code* allows an agency to retain up to 50% of the savings/additional revenue realized.

Applications for eight of the ten loans approved included a savings/additional revenue amount. The applications for DRF (field office automation) and DOM (GEMS) did not demonstrate a return on investment as required by the *Code*.

The Committee included an estimated savings/additional revenue amount in the loan agreement for only six loans of the ten loans approved. However, differences exist between the amount included in the loan agreement and the savings/additional revenue estimated in the applications submitted by the agencies. In each case, the amount included in the loan agreement was less than the amount estimated in the loan application. Documentation of how the savings/additional revenue amounts were calculated for the loan agreement or why the savings/additional revenue was different from the loan application is not maintained. See **Finding (1).** The estimates, projections and differences are summarized in the following table.

Table 3

	Total savings/additional revenue per the Loan		
Loan	**Application**	**Agreement**	**Difference**
Natural Resources – Energy efficient improvements	$ 1,700,000	500,000	1,200,000
General Services – Mail processing system	898,040	299,600	598,440
Revenue & Finance – Field office automation	Not identified	5,997,332*	-
Iowa Communications Network – Billing process	470,525	37,650	432,875
Inspections & Appeals – Verification of assistance payments	3,137,998	705,284	2,432,714
General Services – Fleet management	506,000	196,000	310,000
Treasurer of State – College Savings Iowa software	193,868	**	193,868
Personnel – Deferred compensation match	222,605	-	222,605
Management – GEMS	Not identified	-	-
Revenue and Finance – Filing reduction initiative	70,000	-	70,000

*Savings identified in addendum to the loan agreement, dated August 1997.

**Loan agreement requires savings to be calculated by TOS by July 31 of each year for the previous fiscal year.

As shown in **Table 3**, the Committee did not include any specific savings or additional revenue in the loan agreements for the four remaining loans. According to the loan agreement with the Treasurer of State, savings were to be calculated by the agency by July 31 of each year for the previous fiscal year. According to a representative of DOM, no savings/additional revenue were identified for the second loan to DRF and the loans to IDOP and DOM were not required to pay savings to the Innovations Fund as a result of action taken during the 1999 Legislative Session.

During the 1999 session, section 8.63(4)(b) of the *Code of Iowa* was added, which states:

> "If the department of management and the department of revenue and finance certify that the savings from a proposed innovations fund project will result in a net

increase in the balance of the general fund of the state without a corresponding cost savings to the requesting agency, and if the requesting agency meets all other eligibility requirements, the innovations fund committee may approve the loan for the project and not require repayment by the requesting agency. There is appropriated from the general fund of the state to the department of revenue and finance an amount sufficient to repay the loan amount."

Two of the loans were approved in accordance with section 8.63(4)(b) of the *Code*. A savings/additional revenue amount was identified in the loan application for only one of the two loans and neither loan agreement identified an estimated savings amount.

Section 8.63(3) of the *Code* requires an agency seeking a loan from the Innovations Fund to complete an application that documents a return on investment concept and demonstrates how expenditures will be reduced or how revenues will increase. Therefore, all loans awarded from the Innovations Fund must demonstrate how they will result in an increase to the State's General Fund. The new section enacted by the 1999 Legislature does not negate this requirement. It only allows for loan repayments to be made by the Department of Revenue and Finance when the agency awarded the loan will not realize the savings.

According to a representative of DOM, the Department agrees all loans must show a return on investment, but it is DOM's interpretation section 8.63(4)(b) of the *Code* allows loans to be established that are not required to identify savings/additional revenue in the agreement. The loan agreements certified by DOM and DRF are signed by these two departments, as well as the agency applying for the loan. To demonstrate a return on investment and document the amount expected to be added to the State's General Fund, the loan agreement should identify an estimated savings/additional revenue amount. See **Finding (3b)**.

The following table summarizes savings/additional revenue payments due from and remitted by each agency as of June 30, 2003. As illustrated, only three of the six loans for which a savings/additional revenue amount was established have had anticipated savings or additional revenue remitted to the Innovations Fund.

Table 4

Loan	**Savings/Additional Revenue Per Loan Agreement**	**Savings/Additional Revenue Actually Remitted**	**Excess (Deficient) Actual Payments**	
Natural Resources – Energy efficient improvements	$ 250,000	-	(250,000)	#
General Services – Mail processing system	149,800	23,347	(126,453)	^
Revenue and Finance – Field office automation	2,498,666	5,349,763	2,851,097	
Iowa Communications Network – Billing process	18,825	18,825	-	
Inspections and Appeals – Verification of assistance payments	352,642	-	(352,642)	#
General Services – Fleet management	25,000	-	(25,000)	*
	$3,294,933	5,391,935	2,097,002	

- Payment of savings is not expected.
^ - Total savings were to be repaid between 12/15/97 and 6/15/01. One payment was made on 4/5/01. No additional savings payments are expected.
* - The total estimated savings per the loan agreement totals $98,000. Only two payments totaling $25,000 were due at June 30, 2003. Two additional payments are scheduled for 2004.

DOM does not review either the estimated or actual savings/additional revenue generated by the agencies as a result of implementing the project. DOM relies on the semi-annual reports from the agencies for the actual savings/additional revenue. The semi-annual reports received are not verified and, in several instances, have not been submitted by the agencies. Therefore, there are no assurances the proper amount has been remitted. See **Finding (1)**.

Based on our review of the language in section 8.63 of the *Code*, savings or additional revenue amounts remitted by the agencies should have been deposited to the State's General Fund rather than the Innovations Fund. According to a representative of the Legislative Services Agency, the State's General Fund should have received the savings or additional revenue in accordance with section 8.63(3) of the *Code.* The intent of section 8.63 is to generate additional revenue for the State's General Fund rather than the Innovations Fund.

Interest Payments – As illustrated in **Schedule 1**, $217,340.04 of interest accumulated on the loans has been remitted to the Innovations Fund. According to the Fund Coordinator, the Committee did not maintain documentation to support the interest rate established for each of the ten loan agreements. In addition, interest has not been accrued on any repayments not made in accordance with the schedule included in the loan agreement.

The Innovations Fund has also earned $534,585.86 of interest on the Fund's balance.

Transfers from the Innovations Fund - Since inception of the Innovations Fund, three transfers mandated by the Legislature have been made from the Fund, as shown in the following table.

Table 5

Mandated Transfers

Date	Amount	Legislative Action	Reason
02/14/00	$ 300,000	2000 Session, HF 2039	Relating to state budgetary matters by providing for reductions and supplementation of appropriations for the fiscal year beginning July 1, 1999.
03/02/01	2,343,051	2001 Session, SF 65	To supplement the low-income home energy assistance appropriation; to be used to help eligible households meet home energy costs.
03/26/03	400,000	2003 Session, SF 2326	Transfer to the State's General Fund beginning July 1, 2002.
	$3,043,051		

Balance of Innovations Fund – As illustrated in **Schedule 1**, the Innovations Fund has a balance of $2,845,962.77 at June 30, 2003. The activity in the Fund can be summarized as follows:

Appropriation		$ 1,000,000.00
Loans awarded	$(2,866,553.00)	
Repayments of loan principal	1,612,143.08	
Interest on loans	217,340.04	
Amount of loans outstanding		(1,037,069.88)
Net miscellaneous expenses		(436.71)
Subtotal		(37,506.59)
Savings/additional revenue payments	5,391,934.50	
Transfers	(3,043,051.00)	
Interest on the Fund's balance	534,585.86	2,883,469.36
Balance at June 30, 2003		$ 2,845,962.77

As illustrated, the Innovations Fund would have been in a deficit position at June 30, 2003 if it had operated as a revolving loan account. The Innovations Fund has been able to award $37,506.59 more in loans than funding would have permitted if only the principal repayments and interest had been deposited to the Innovations Fund. If the fund had been administered as a revolving loan account, the savings/additional revenue payments and the interest earned by the Treasurer on the Fund's balance would have been deposited to the State's General Fund rather than the Innovations Fund. As a result, an additional $2,883,469.36 could have been deposited to the State's General Fund if the Innovations Fund had been operated as a revolving loan account.

The amount deposited to the State's General Fund would be greater if DOM had not extended its agreement with DRF. Of the $5,391,934.50 of savings/additional revenue deposited to the Innovations Fund, $5,349,762.50 was remitted by DRF for the Field Office Automation project. The term of DRF's loan for the project expired on June 30, 2001. However, as a result of an agreement with DOM, DRF continued to remit 50% of additional revenues to the Innovations Fund and retain the remaining 50%. Between June 30, 2001 and June 30, 2003, DRF remitted $2,156,062 of additional revenue to the Innovations Fund and retained an equal portion. If DOM had not extended the agreement with DRF and the Innovations Fund was operated as a revolving loan account, an additional $5,039,531.36 could have been deposited to the State's General Fund ($2,883,469.36 identified previously in addition to $2,156,062 retained by DRF.)

Administration of the Program

During our review of the loans awarded by the State Innovations Fund Committee and administered by DOM, we identified the following:

- DOM does not verify loan proceeds are spent in accordance with the terms of the loan agreement.
- According to the loan agreements, each agency awarded a loan is required to submit semi-annual reports to DOM for the term of the loan. DOM does not monitor whether the semi-annual reports are submitted. In addition, DOM does not review the reports to ensure the data presented is reasonable and comparable to expectations.
- DOM does not review or verify the actual savings/additional revenue generated by the agencies as a result of implementing the project.
- The Committee has not developed policies and procedures to provide guidance in evaluating loan applications and preparing loan agreements. In addition, DOM has not developed policies and procedures to aid in administering and monitoring loans.
- The Committee meets to review and approve or deny loan applications. Minutes of Committee meetings documenting the approval of two loans could not be located. The minutes also did not identify the amount approved for one loan. In addition, each member's vote or significant discussions between the Committee members and DOM were not consistently documented in the Committee's minutes.
- Documentation of how the Committee determined the interest rate of each approved loan was not available. Because supporting documentation was not provided, we cannot determine if interest rates were determined on a consistent basis.

Each of these items are included in **Findings (1) and (2).**

Loan Activity

We have reviewed each of the loans awarded by the State Innovations Fund Committee and have summarized each of the loans in the following section of this report.

Department of Natural Resources (DNR) – Energy Efficient Improvements

Loan Date:	05/21/97	*Annual Interest Rate*	5.40%
Loan Amount:	$ 150,000	*Savings amount estimated:*	$ 250,000
Principal Repaid:	$ 150,000	*Savings amount paid:*	$ 0

Purpose of Loan: To reduce utility costs at state facilities by implementing energy efficient improvements.

Description of Loan: The loan application states, in part, "The DNR has identified a potential $12 million in needed energy improvements at the Departments of Human Services, General Services, and Corrections which will save $22 million over the life of the project. The first innovation loan of $150,000 will enable the DNR to assist the agencies install $3 million of improvements with lease financing. The project will need to be financed for an additional three years to ensure all improvements are installed. The DNR will draw upon the past experience of the State of Iowa Facilities Improvement Corporation (SIFIC) to oversee the administration of the project. SIFIC is a non-profit corporation staffed by the DNR for the purpose of implementing energy improvements at state facilities. The state will benefit by implementation of the energy improvements because it will strengthen infrastructure, improve air quality, and increase the comfort at the facilities."

The project was similar in nature to services already provided by SIFIC. DNR's application stated funding limitations allowed SIFIC to work with state agencies only on a limited basis. The loan proceeds were used to hire contract employees to analyze state facilities' energy plans. The repayment schedule included in the loan agreement is shown in the following table, along with the repayments made for the loan.

Table 6

Loan Repayments (principal and interest)

Scheduled		Actual	
Date	**Amount**	**Date**	**Amount**
07/01/97	$ 42,695	10/07/97	$ 42,695
07/01/98	42,695	11/08/00	128,085*
07/01/99	42,695		$ 170,780
07/01/00	42,695	* Payment made by SIFIC	
	$ 170,780		

As shown above, DNR was not repaying the loan in compliance with the terms included in the loan agreement. DNR requested deferrals on the payments due to delays in a planned project. Copies of the letters requesting deferrals are shown in **Appendix D**. However, DNR was ultimately unable to operate the program and turned the projects over to SIFIC. The sum of the last three loan payments, $128,085, was made in one lump sum payment by SIFIC on November 8, 2000. No additional payments were made for additional interest accrued on the loan. See **Finding (4a)**.

The loan application submitted by DNR identified savings of $1,700,000. However, the loan agreement included only $250,000 of cost savings to be repaid. The savings payment schedule included in the loan agreement contained two $125,000 payments to be made on July 1 of 2001 and 2002. DNR was unable to provide the estimated cost savings because the savings were actually realized by the state facilities where the energy efficient improvements were implemented.

The State Innovations Fund Committee should have questioned the cost savings identified in the loan application, as well as the availability of funds for repayment. Based on the information in the application, it was clear savings were not going to be realized by DNR and no other funding source for repayments was identified. See **Finding (4a)**.

DNR submitted semi-annual reports to DOM as required by the loan agreement. The last one submitted was dated January 31, 2001. In that report, DNR stated energy efficiency projects had been financed at five agencies at a cost of $1,993,103 with annual savings of $423,453. The savings were realized by the agencies where the projects were implemented. The amount has not been reviewed by anyone independent of the Department. See **Finding (1).**

Department of General Services (DGS) - Mail Processing System

Loan Date:	12/31/97	*Annual Interest Rate*	5.47%
Loan Amount:	$ 291,645	*Savings amount estimated:*	$ 149,800
Principal Repaid:	$ 291,645	*Savings amount paid:*	$ 23,347

Purpose of Loan: To qualify for lower postage rates through the acquisition of specialized hardware and software.

Description of Loan: According to the loan application, acquisition of specialized hardware and software would "enable electronic address checking and correction, generation of correct 9-digit zip codes, and generation of postal net bar codes. Savings would be entirely from reduction in postage expense. Proposal includes hiring contract staff for banding, traying, and deliveries to post office." According to the application, the cost of equipment acquired through the loan would be paid from savings.

The pre-application form submitted by the Department estimated the cost of the specialized hardware and software as $209,000. The Innovations Fund Committee awarded the Department a $291,645 loan. The reason for the difference between the pre-application and the actual loan amount could not be identified. See **Finding (4b)**. The repayment schedule included in the loan agreement is shown in the following table, along with the repayments made by DGS.

Table 7

Loan Repayments (principal and interest)

Scheduled		**Actual**	
Date	**Amount**	**Date**	**Amount**
06/15/97	$ 46,346	09/02/97	$ 46,346
12/15/97	46,347	02/04/98	46,347
06/16/98	46,347	05/26/98	46,347
12/15/98	46,347	12/15/98	46,347
06/15/99	46,347	08/12/99	46,347
12/15/99	46,347	12/30/99	46,347
06/15/00	46,349	06/22/00	46, 349
	$ 324,430		$ 324,430

The application also stated DGS was currently billing agencies 29 cents per letter (27.4 cents for postage and 1.6 cents for pre-sorting.) Under the proposal, total costs incurred by the Department were expected to be 25 cents per letter. The Department proposed to continue billing agencies for 29 cents and the 4-cent savings would be used to repay the loan. When the loan was repaid, billings to agencies were to be reduced. The application indicated five-year savings of $898,040, although the loan agreement only identified $149,800 of savings. The savings payment schedule contained in the loan agreement is shown in the following table. As of June 30, 2003, DGS has made only one savings payment to the Innovations Fund. According to a representative of DGS, no additional payments are anticipated.

Table 8

Savings Payments			
Scheduled		**Actual**	
Date	**Amount**	**Date**	**Amount**
12/15/97	$ 16,082	04/05/01	$ 23,347
06/15/98	16,082		$ 23,347
12/15/98	9,957		
06/15/99	9,957		
12/15/99	8,307		
06/15/00	8,307		
12/15/00	40,554		
06/15/01	40,554		
	$149,800		

According to a representative of the Department, savings were not realized as expected because agencies using the mail system did not modify the size and format of the items processed through the mail in order to achieve the expected efficiencies. The representative stated the agencies did not make the modifications because of the cost they would have incurred in doing so. See **Finding (4b)**.

DGS has not submitted the semi-annual reports as required by the loan agreement.

Department of Revenue and Finance (DRF) – Field Office Automation

Loan Date:	02/16/97	*Annual Interest Rate*	5.60%
Loan Amount:	$ 275,355	*Savings amount estimated:*	$ 2,498,666
Principal Repaid:	$ 275,355	*Savings amount paid:*	$ 5,349,763

Purpose of Loan: According to a report prepared by representatives of DRF, the loan was to provide enhanced technology to over two dozen field offices located throughout Iowa and in nine other states. The technology would improve productivity of field staff employees, which would directly relate to better collection of state tax revenues.

Description of Loan: According to the same report, the loan proceeds were used by DRF to install new technology and applications in field offices. The technology included network servers, printers, personal computers and data communications hardware that permit DRF field staff to communicate with each other and central office. DRF also developed new applications, including an on-line tax information library, time management reports and collection agent guides. The investment in hardware and applications was supplemented by the training of approximately 115 staff in its use. The technology provided auditors, collection agents, management and support staff with improved access to information previously available in an electronic form only to central office staff. Also according to the report, with the new technology the staff is now able to electronically communicate the results of their field audits to the central office, resulting in improved efficiency in resolution of audit issues.

With the technology acquired with the loan proceeds, field offices were connected to DRF's local area network (LAN) and mobile access was established for field staff when working outside the office.

According to the reports submitted, DRF has realized a reduction in the time it takes staff to access information needed for their enforcement activities because the new technology has improved access to information resources. The estimated hours of increased efficiency are applied to the number of enforcement staff available and the hourly enforcement revenue generated from these resources to arrive at the calculated revenue realized by the State.

The loan was approved at the State Innovations Fund Committee's first meeting held on December 12, 1995. As a member of the Innovations Fund Committee, the Director of DRF did not vote on the loan. The repayment schedule included in the loan agreement is shown in the following table, along with the repayments made by DRF.

Table 9

Loan Repayments (principal and interest)

Scheduled		Actual	
Date	**Amount**	**Date**	**Amount**
02/01/99	$ 166,800	01/27/99	$ 166,800
02/01/00	146,415	02/28/00	146,415
	$ 313,215		$ 313,215

The loan application submitted by DRF did not identify the estimated cost savings or related revenue required by the *Code*. However, the original loan agreement did identify $1,683,901 of related revenue to be realized. An addendum to the loan agreement providing for additional related revenue of $814,765 became effective in August 1997. The addendum included a termination date of June 30, 2001.

In September 2000, a Memorandum of Understanding (MOU) was signed by the Directors of DRF and DOM. The MOU provided additional savings would be remitted to the Innovations Fund by DRF after the termination date of the addendum. Because the MOU does not identify an ending date, representatives of DRF and DOM anticipate related revenue realized will continue to be submitted to the Innovations Fund. See **Finding (1).**

Table 10 summarizes the additional revenue schedule in the original agreement and addendum. The table also includes actual payments made by DRF. As of June 30, 2003, DRF has deposited $5,349,763 of additional revenue to the Innovations Fund, more than double the amount estimated in the loan agreement and addendum. The additional revenue is deposited to the State's General Fund and then 50% is transferred to DRF and the remaining 50% is transferred to the Innovations Fund.

Table 10

Additional Revenue

Scheduled		**Actual**	
Date	**Amount**	**Date**	**Amount**
06/01/97	$ 21,391	02/05/98	$ 21,391
01/01/98	125,000	02/05/98	135,917
06/01/98	305,765	06/02/98	346,534
01/01/99	200,000	12/30/98	384,667
06/01/99	482,170	06/01/99	444,378
01/01/00	200,000	12/29/99	429,725
06/01/00	482,170	06/20/00	460,687
01/01/01	200,000	01/31/01	443,720
06/01/01	482,170	06/18/01	526,682
	$ 2,498,666	01/30/02	561,641
		06/18/02	507,212
		02/04/03	594,834
		06/30/03	492,375
			$ 5,349,763

Between June 30, 2001 and June 30, 2003, an additional $2,156,062 has been deposited to the Innovations Fund as a result of the MOU. This represents 50% of the additional revenue generated by this project with an equal amount deposited to DRF. Without the MOU, the State's General Fund would have received an additional $4,312,124. As stated previously, the MOU has no ending date. Therefore, additional revenues will continue to be removed from the State's General Fund.

Representatives of DOM were not able to provide copies of any semi-annual reports submitted by DRF. We were not able to determine if DRF has submitted the reports as required.

Iowa Communications Network (ICN) – Improved Billing Process

Loan Date:	04/24/98	*Annual Interest Rate*	5.60%
Loan Amount:	$ 111,000	*Savings amount estimated:*	$ 18,825
Principal Repaid:	$ 111,000	*Savings amount paid:*	$ 18,825

Purpose of Loan: According to information attached to its application, ICN requested a loan "to simplify, improve and make the ICN customer billing process cost effective." The ICN also proposed "to perform all customer billing activities in-house."

Description of Loan: ICN used loan proceeds to implement an in-house billing system to replace the one previously outsourced to the Department of General Services. To implement the billing system, ICN incurred one-time costs to purchase a personal computer, a high-speed laser printer, and software. One-time costs associated with migration of data from the existing mainframe to the new personal computer were also incurred. In addition, conversion to the new system required annual maintenance and subscription costs along with the cost of purchasing invoice media (paper, compact disks and diskettes.)

In its application, ICN identified several problems with the existing billing system. Specifically, ICN stated the system was error prone, labor intensive, not flexible and expensive.

The repayment schedule included in the loan agreement is shown in the following table, along with the repayments made by ICN.

Table 11

Loan Repayments (principal and interest)

Scheduled		Actual	
Date	**Amount**	**Date**	**Amount**
10/01/98	$ 19,417	10/05/98	$ 19,417
01/01/99	19,417	12/23/98	19,417
04/01/99	19,417	03/31/99	19,417
07/01/99	19,417	07/13/99	19,417
10/01/99	19,417	09/28/99	19,417
12/31/99	19,417	12/21/99	19,417
	$ 116,502		$ 116,502

While the loan application prepared by ICN included estimated savings of $470,525 over a four-year period, ICN's loan agreement required ICN to provide only $18,825 of savings to the Innovations Fund over a 14-month period. Representatives of DOM could not explain the difference between the two estimates. The savings payment schedule contained in the loan agreement is shown in the following table along with the actual savings payments made by ICN.

Table 12

Savings Payments

Scheduled		Actual	
Date	**Amount**	**Date**	**Amount**
10/01/98	$ 3,137	10/05/98	$ 3,137
01/01/99	3,138	12/23/98	3,138
04/01/99	3,137	03/31/99	3,137
07/01/99	3,138	07/13/99	3,138
10/01/99	3,137	09/28/99	3,137
12/31/99	3,138	12/21/99	3,138
	$ 18,825		$ 18,825

We reviewed two semi-annual progress reports submitted by ICN. The reports were for the six months ended June 30, 1998 and December 31, 1998. Representatives of DOM were not able to provide copies of any additional semi-annual reports for the project. We were unable to determine if the reports were prepared.

Department of Inspections and Appeals (DIA) – Verification of Assistance Applications

Loan Date:	03/08/98	*Annual Interest Rate*	5.50%
Loan Amount:	$ 429,426	*Savings amount estimated:*	$ 352,642
Principal Repaid:	$ 41,145	Savings *amount paid*:	$ 0

Purpose of Loan: To expedite welfare fraud investigations and recovery activities, and reduce annual state costs associated with income verification.

Description of Loan: In its application, DIA proposed using loan proceeds to contract with an outside vendor to perform "front-end investigations" (income verifications) of welfare applications. DIA stated by obtaining these services from an outside vendor, they would be able to reassign 11 state investigators to full-time welfare fraud investigators. They previously had performed front-end income verification duties in addition to part-time welfare fraud investigations. DIA also stated by assigning more investigators to welfare fraud investigations the Department would realize an increase in the number of dollars identified for recovery to the State treasury. In addition, DIA stated having the entire investigations staff available for fraud investigations would allow the Division to conduct coordinated statewide welfare fraud detection and prevention activities.

DIA proposed establishing a contract for services of four individuals employed by a private collection firm. According to its application, DIA expected the loan proceeds to reduce the costs associated with front-end investigations, as well as increase the number of cases of welfare fraud closed each year. A portion of the funds were used for a statewide promotional campaign, including the use of public service radio, newspaper, and television ads to enhance public awareness of welfare fraud.

DIA received a loan of $429,426 to contract with private contractors to perform front-end investigations of welfare applications and increase collection activities. In the loan application, DIA indicated the loan would reduce annual state costs associated with income verification investigations, as well as increase the State's efforts to combat welfare fraud. The hiring of private contractors would allow DIA investigators to perform additional investigations leading to a decrease in fraudulent public assistance funds provided by the Department of Human Services (DHS).

While DIA actually applied for and received the loan, it was done in conjunction with the Department of Human Services. The loan agreement contains the following point of agreement:

> "The Project is expected to generate up to $705,284 in savings or revenues over fiscal years 1998, 1999, 2000, 2001, 2002, and 2003. The Department of Human Services (DHS) is authorized by this Agreement to retain not more than 50% of this amount in connection with this loan pursuant to Iowa Code section 8.63 (Code Supplement 1995). However, sufficient revenues from the savings or revenue will be paid to the Agency [DIA] to allow for the payment of ongoing Project expenses, to reimburse the Innovation Fund (including the percentage of savings or revenues referenced below), and to ensure that revenues are paid to the general fund in accordance with Section 8.63."

The agreement goes on to state:

> "The Agency [DIA] shall provide monthly billings to DHS to maximize the federal dollars that are available for the enhanced collection activities. The revenues detailed in this section are based on 50% of estimated new revenue reduced by the state share of expenditures."

The loan agreement was signed by the Directors of DIA and DOM. The agreement also contains the signature of the Director of DHS below the statement "DHS supports the Project and has reviewed this Agreement."

According to representatives of DIA, even though collections were generated through this project, a significant percentage was returned to the federal government. DIA only received one-third of the collections retained by DHS. As a result, DIA was unable to cover project expenses and meet the repayment requirements established by the loan agreement. Because DHS did not provide DIA the funding required by the terms of the agreement, DIA defaulted on the loan. The repayment schedule included in the loan agreement is shown in the following table, along with the repayments made by DIA.

Table 13

Loan Repayments (principal and interest)

Scheduled		Actual	
Date	**Amount**	**Date**	**Amount**
03/1/99	$ 95,394	07/26/99	$ 30,000
03/1/00	189,748	08/25/99	20,653
03/1/01	181,217		$ 50,653
	$ 466,359		

The loan to DIA was disbursed in thirteen payments between May 1, 1998 and February 1, 2001. As illustrated in **Table 13**, the first payment made by DIA was nearly five months late and was less than the amount scheduled to be paid. The second payment made by DIA a month later was still not in an amount sufficient to meet the first scheduled payment. While DIA was behind on their repayments, they continued to receive loan disbursements from the Innovations Fund until the total $429,426 awarded had been drawn. DIA received $269,542 of disbursements from the Fund after March 1, 1999. See **Finding (4c)**.

The minutes of Committee meetings do not document discussion or approval of forgiving or releasing the loan made to DIA. However, DIA received a letter from DOM in April 2003 regarding the loan. The letter was "to serve as official acknowledgement that the remaining principal payments of $370,965.75, and projected interest, for the March 1998 Innovations Fund loan in the amount of $421,618.84 have been forgiven." (The amounts used by DOM were incorrect and should have been $388,281 and $429,426, respectively.) The letter does not indicate the Committee's approval of the release. The letter was sent to DIA after we requested to observe documentation supporting forgiveness of the loan. A copy of the letter is included in **Appendix E**. See **Finding (4c)**.

As noted previously, the loan agreement allowed DHS to retain not more than 50% of the expected $705,824 savings or additional revenue, or $352,642. The amount of projected savings or additional revenue in the loan agreement is significantly different than the three-year net savings of $3,137,998 outlined in the loan application. The savings payment schedule contained in the loan agreement is shown in the following table, along with the actual savings payments made by the Department.

Table 14

Savings/Additional Revenue Payments

Scheduled		Actual	
Date	**Amount**	**Date**	**Amount**
03/1/99	$ 12,597	-	$ 0
03/1/00	14,005		
03/1/01	88,920		
03/1/02	118,560		
03/1/03	118,560		
	$ 352,642		

DIA did submit semi-annual reports from July 30, 1998 to June 30, 2000, except for the December 1998 report. There were no semi-annual reports submitted after June 2000. In the June 2000 report, DIA reported the front-end income verification process had resulted in $ 5.7 million savings to the State.

Department of General Services (DGS) – Fleet Management

Loan Date:	03/29/99	*Annual Interest Rate*	4.40%
Loan Amount:	$ 300,000	*Savings amount estimated:*	$ 98,000
Principal Repaid:	$ 228,166	*Savings amount paid:*	$ 0

Purpose of Loan: To install a work order-based fleet management software program that would reduce duplicating entries into the accounting and management information systems and enhance the collection and application of vehicle operational data.

Description of Loan: According to the application prepared by DGS, the loan proceeds were requested to purchase a "proposed system that would be more customer friendly, eliminating the need for duplicative entry of maintenance events in one system and cost data in another. The system would also facilitate data collection analysis for enhanced decision-making capability by management resulting in a savings to the State of Iowa."

The repayment schedule included in the loan agreement is shown in the following table, along with the repayments made by DGS.

Table 15

Loan Repayments (principal and interest)

Scheduled Date	Scheduled Amount	Actual Date	Actual Amount
01/01/00	$ 37,106	02/24/00	$ 37,106
07/01/00	37,106	08/16/00	37,106
01/01/01	37,106	01/30/01	37,106
07/01/01	37,106	08/06/01	37,106
01/01/02	37,106	03/01/02	37,106
07/01/02	37,107	08/02/02	37,107
01/01/03	37,107	02/07/03	37,107
subtotal	259,744		$ 259,744
07/01/03	37,106		
01/01/04	37,106		
	$ 333,956		

The application submitted by DGS included an estimated net savings of $506,000. However, the loan agreement established required savings payments of only $98,000 to the Innovations Fund over a two-year period. As shown in the following table, no savings payments have been made as of June 30, 2003.

Table 16

Savings Payments

Scheduled Date	Scheduled Amount	Actual Date	Actual Amount
01/01/03	$ 12,500	-	$ 0
06/01/03	12,500		
01/01/04	36,500		
06/01/04	36,500		
	$ 98,000		

According to a representative of DOM, no semi-annual reports have been submitted by the Department for this loan. A representative of DGS indicated no savings are anticipated.

Treasurer of State (TOS) – College Savings Iowa Software

Loan Date:	10/26/00	*Annual Interest Rate*	5.69%
Loan Amount:	$ 598,682	*Savings amount estimated*:	Not identified
Principal Repaid:	$ 287,430	*Savings amount paid:*	$ 0

Purpose of Loan: TOS requested a loan to acquire a comprehensive software solution to handle all facets of the College Savings Iowa (CSI) program.

Description of Loan: With proceeds from the loan, a web-based software package for college savings programs was purchased. According to TOS personnel, the software reduced, if not eliminated, the need for data entry cost as office personnel now simply verify information provided electronically or through imaging applications into the program. Paper handling and record storage was reduced by participants using the Internet to conduct business and electronic image storage provided for documents to be accessed via a computer, rather than retrieval from storage boxes. In addition, mailings became more efficient because the program identified households with more than one account and provided only one mailing to the address. According to TOS personnel, the software is flexible and can be adjusted to Iowa's specific needs as changes occur in the future.

The repayment schedule included in the loan agreement is shown in the following table, along with the repayments made by TOS.

Table 17

Loan Repayments
(principal and interest)

Scheduled		Actual				
Date	**Amount**	**Date**	**Amount**	**Date**	**Amount**	**Total**
04/01/01	$ 34,605	03/30/01	$ 13,184	05/01/01	$ 21,421	$ 34,605
06/29/01	60,561	06/29/01	60,561	-	-	60,561
07/01/01	34,605	07/03/01	13,183	08/02/01	21,421	34,604
10/01/01	30,767	10/10/01	9,346	11/02/01	21,421	30,767
01/01/02	30,768	01/04/02	9,346	02/13/02	21,421	30,767
04/01/02	30,767	04/04/02	9,346	05/07/02	21,421	30,767
07/01/02	30,768	07/03/02	9,346	08/07/02	21,422	30,768
10/01/02	30,767	10/10/02	9,346	12/02/02	21,422	30,768
01/01/03	30,768	02/06/03	30,768	-	-	30,768
04/01/03	30,767	04/02/03	9,346	05/09/03	21,422	30,768
	345,143					$345,143
07/01/03	30,768					
10/01/03	30,767					
01/01/04	30,768					
04/01/04	30,767					
07/01/04	30,768					
10/01/04	30,767					
01/01/05	30,768					
04/01/05	30,767					
07/01/05	30,768					
10/01/05	30,767					
01/01/06	30,770					
	$ 683,588					

In its loan application, TOS projected net savings of $193,868 related to the project. However, the loan agreement required TOS to calculate savings on a fiscal year basis by July 31 of each year and then remit 50% of the savings to the Innovations Fund. As of June 30, 2003, no savings have been remitted to the Fund. We have reviewed the semi-annual reports submitted by TOS. The reports do not identify any savings or additional revenue. According to a representative of TOS, the agency does not anticipate making any savings payments to the Innovations Fund because the Legislature no longer appropriates funds to TOS for administration of the program. See **Finding (4d).**

Department of Personnel (IDOP) – Deferred Compensation Match

Loan Date:	01/28/01	*Annual Interest Rate*	4.83%
Loan Amount:	$ 330,000	*Savings amount estimated:*	Not identified
Principal Repaid:	$ 227,401	*Savings amount paid*	$ 0

Purpose of Loan: To implement new technologies and practices to address administrative challenges faced by IDOP as a result of implementation of a State match in the Deferred Compensation Program.

Description of Loan: According to documents prepared by IDOP, the loan proceeds were used to acquire new technology to streamline the administration of the expanded Deferred Compensation Program. Proceeds were also to be used to acquire consulting and programming expertise necessary to ensure the programs were set up in the best possible manner, focusing on the technological, financial and legal choices ahead.

According to the loan application, implementation of a 401(a)-match plan would allow payroll tax savings, which could serve as a basis for funding repayment of the loan. In its application, IDOP estimated $222,605 of net savings for the State's General Fund at the end of fiscal year 2002, resulting from avoiding FICA payments on matching contributions. Because the State General Fund would benefit, the loan agreement called for Department of Revenue and Finance (DRF) to repay the loan. Loans benefiting the State General Fund are to be certified by DOM and DRF. However, no minutes or other support could be found to document the certification of the IDOP loan. See **Finding (3)**.

The repayment schedule included in the loan agreement is shown in the following table along with the repayments made by DRF. The repayment schedule was based on estimated savings and did not allow for payments to be based on actual savings. Because DRF is making repayments based on the semi-annual reports from IDOP rather than the repayment schedule, the loan is overdue by $102,598 at June 30, 2003. See **Finding (4e)**.

Table 18

Loan Repayments (principal and interest)

Scheduled		**Actual**	
Date	**Amount**	**Date**	**Amount**
08/31/01	$ 49,297	09/12/01	$ 32,510
02/28/02	127,004	02/27/02	71,056
08/31/02	124,105	09/06/02	71,294
02/28/03	51,208	02/28/03	74,156
	$ 351,614		$ 249,016

According to the terms of the loan agreement, savings were not required to be paid to the Innovations Fund. According to DOM, this was not required as the loan would result in an increase to the State General Fund. The 1999 Legislature created new legislation providing for a loan to be certified by DOM and DRF if the loan would result in a direct increase to the State General Fund. As a result, the loan would be paid back by DRF from anticipated General Fund savings/additional revenue. According to DOM, the IDOP loan agreement did not include an estimated savings amount because of the certification by DOM and DRF. Also, DOM handled the first DRF loan differently than this because the 1999 legislation was not in place at the time of the DRF loan. To demonstrate a return on investment and document the amount expected to be added to the State's General Fund, an estimated savings amount should have been identified in the loan agreement

Semi-annual reports have been submitted as required by the loan agreement. The reports are used by DRF to determine the loan repayment amount due to the Innovations Fund.

Department of Management (DOM) – Grants Enterprise Management System

Loan Date:	01/10/02	*Annual Interest Rate*	4.34%
Loan Amount:	$ 277,070	*Savings amount estimated:*	Not identified
Principal Repaid:	$ 0	*Savings amount paid:*	$ 0

Purpose of Loan: According to the application prepared by DOM, the loan was to establish a system that would enable the State to increase its utilization of grants by implementing a system for use by all agencies to identify, track, and share opportunities. The application stated the primary goal of the project is to increase the amount of external funding coming into the State.

Description of Loan: DOM has used the loan proceeds to establish the Grants Enterprise Management System (GEMS) project which was designed to increase external funding resources, maximize indirect cost recovery, increase grants coordination, and maximize use of available grant funds. The system was also developed to be a retrievable database containing information on the status of all grants applied for and denied/received, as well as a complete record of actual receipts from the prior fiscal year. DOM worked with ITD to develop a grant tracking database that allows identification of grants which departments apply for and alert the system if a grant commits the state to matching funds, increased FTE's or post-grant responsibilities.

Because the State's General Fund would benefit, the loan agreement called for the Department of Revenue and Finance to repay the loan. A copy of the memorandum received from DOM as documentation for the approval of DOM's proposal is included in **Appendix F**. The memorandum shows the project was unanimously approved by the Innovations Committee, including the two members employed by DOM. Because DOM applied for the loan, it should have abstained from approving the loan. See **Finding (4f)**.

DOM also participated in certification of the loan. Section 8.63(4) of the *Code* requires loans of this type to be certified by DOM and DRF. Provisions are not made in the *Code* for instances in which the loan applicant is DOM or DRF. When similar circumstances arise in the future, DOM and DRF should recuse themselves from the approval and certification processes to maintain the appearance of independence.

The repayment schedule included in the loan agreement is shown in the following table. The first loan payment is not due until December 30, 2003.

Table 19

Scheduled Loan Repayments (principal and interest)

Date	Amount
12/30/03	$ 39,731
12/30/04	54,106
12/30/05	96,213
12/30/06	152,594
	$ 342,644

DOM's application did not include estimated savings or additional revenue as required by section 8.63(3) of the *Code*. Per the Fund Coordinator, additional information identifying $346,940 of new indirect cost recovery funds was provided at the Committee's request after the application was submitted. Also, an estimated savings/additional revenue amount was not identified in the loan agreement. See **Finding (1)**.

Semi-annual reports have been submitted by DOM in compliance with the requirements established by the loan agreement.

Department of Revenue and Finance (DRF) – Filing Reduction Initiative

Loan Date:	10/08/02	*Annual Interest Rate*	3.27%
Loan Amount:	$ 103,375	*Savings amount estimated:*	Not identified
Principal Repaid:	$ 0	*Savings amount paid:*	$ 0

Purpose of Loan: The purpose of the loan was to reduce DRF's cost of processing sales and withholding tax submitted by small- to medium-sized retailers and withholding agents.

Description of Loan: According to the application, DRF proposed to convert over 55,000 businesses from monthly filing status to less frequent filings, including quarterly and annual filing. The effect for the business community was expected to be a reduction of overall costs of tax compliance. DRF stated in the application less frequent filing requirements mean less time and less costs incurred by businesses in compiling retail sales or payroll data, preparing tax information, and creating payments and managing cash flow.

The loan was approved by the State Innovations Fund Committee on August 15, 2002. The Director of DRF, a member of the Innovations Fund Committee, recused himself from the vote.

The repayment schedule included in the loan agreement is shown in the following table. The first repayment, due October 1, 2003, was deposited on September 29, 2003.

Table 20

Scheduled Loan Repayments (principal and interest)

Date	Amount
10/01/03	$ 24,055
10/01/04	23,379
10/01/05	22,703
10/01/06	22,027
10/01/07	21,351
	$ 113,515

In its loan application, DRF estimated savings of $70,000, with DRF keeping $40,800 to offset appropriation reductions and 50% of the remaining $29,200 returned to the State's General Fund. Under this proposal, DRF would retain $55,400 of the estimated savings or approximately 79%. The *Code of Iowa* section 8.63 only allows an agency to retain up to 50% of savings realized in connection with a loan from the Innovations Fund. The terms of the loan agreement, however, did not require any savings to be paid to the Innovations Fund, which is not in compliance with the *Code*.

The first semi-annual progress report was received in July 2003.

Findings and Recommendations

As a result of our review, we have developed certain recommendations we believe should be considered by the Governor, Members of the General Assembly, the State Innovations Fund Committee, and the Director of the Department of Management. The findings and recommendations are summarized below.

(1) **Cost Savings/Additional Revenue** – Section 8.63(3) of the *Code of Iowa* requires agencies seeking a loan to complete an application form that employs a return on investment concept and demonstrates how expenditures will be reduced or revenues will be increased. The *Code* allows an agency to retain up to 50% of the savings realized in connection with a loan from the Innovations Fund. The amount retained is to be determined by the State Innovations Fund Committee (Committee). We identified the following while performing our review:

- As illustrated in **Table 3**, two of the ten loans approved did not include a savings/additional revenue amount in the loan application as required by section 8.63(3) of the *Code*.

- As of June 30, 2003, $5,391,935 of the savings/additional revenue had been deposited to the Innovations Fund. The savings/additional revenue should have been deposited to the State's General Fund rather than the Innovations Fund.

- The loan agreement and addendum with the Department of Revenue and Finance included a savings/additional revenue schedule that required semiannual payments starting in June 1997 and ending in June 2001. However, DRF signed an agreement with DOM to continue making semiannual savings payments to the Innovations Fund even though the term of the loan expired. The last savings payment remitted by the Department was made on June 30, 2003. The additional revenue generated as a result of the project is first deposited to the State's General Fund, with 50% then transferred to the Innovations Fund and an equal amount transferred to DRF.

  While the *Code* does not specify how long an agency should be allowed to retain 50% of the additional revenue resulting from the project implemented with loan proceeds, it does require the loan to be repaid within five years. As a result of the agreed continuation of payments, an additional $4,312,124 was transferred from the State's General Fund to the Innovations Fund and DRF. Of this amount $2,156,062 is included in the $5,391,935 mentioned above.

- DOM does not review or verify the actual savings/additional revenue generated by the agencies as a result of implementing the projects.

- The Committee did not include a savings/additional revenue schedule or identify an estimated savings amount in four of the ten loan agreements. For two of the agreements (IDOP and DOM), the savings were to be realized by the State's General Fund. The agreement with the TOS required the savings to be calculated on an annual basis. The agreement with DRF (Filing Reduction Initiative) did not require the payment of any savings.

- For five of the six loans that included an estimated savings/additional revenue amount in the loan agreement, the amount identified in the agreement was less than the savings/additional revenue estimated in the applications submitted by the agencies. Documentation of how the amounts were calculated for the loan agreement or why it was different from the loan application is not maintained.

- While six of the loans included a schedule of savings/additional revenue payments, only two of the agencies actually complied with the schedules and remitted amounts that equaled or exceeded the amount established in the loan agreement.

Recommendation – Procedures should be implemented to ensure:

- compliance with section 8.63(3) of the *Code*.
- the savings/additional revenue amounts remitted by agencies are deposited to the State's General Fund rather than the Innovations Fund.
- The Innovations Fund Committee identifies a savings amount in the loan agreements for every loan awarded.
- Documentation is maintained of how projected savings/additional revenue amounts are calculated.
- DOM monitors agencies' compliance with the anticipated savings/additional revenue amounts identified in the loan agreements.
- the projected and actual savings/additional revenue are reviewed and verified.

Response – No savings schedules were included for the Department of Personnel and Department of Management loans since both loans were certified under 8.63 (4)(b), which recognizes that, for loans approved under this section, savings or revenues will accrue directly to the General Fund. No savings payments to the General Fund were necessary.

The loan to Treasurer of State for College Savings Iowa did not include a savings schedule, because General Fund money was not requested to fund the program beyond FY 2001. In essence, the dollars formerly appropriated to College Savings Iowa were direct savings to the General Fund. No savings repayment was necessary.

The loans that included differing savings/revenue amounts between loan applications and savings repayments were issued during the previous administration. Documentation explaining these differences could not be located. If such differences in amounts occur in the future, explanation of such differences will be documented.

DOM does have a process in place to monitor compliance with scheduled savings/revenue payments. Departments were contacted by phone or e-mail when payments were late, but no sanctions are in place for failure to comply. We will review this process and consider how best to improve compliance.

Future loan agreements will be constructed to make clear that cost savings or revenue beyond that directed toward repayment of loan principal and interest, or maintained by the Department as part of the allowable 50% retention rate, will be transferred to the General Fund.

Procedures to improve verification of actual savings/revenue will be considered.

Conclusion – The *Code* requires a return on investment concept be applied to loans. Therefore, all loans awarded from the Innovations Fund must demonstrate how they will result in an increase to the State's General Fund. This requirement applies to loans certified under section 8.63(4)(b). Even though the agency will not be required to make savings payments, the loan agreement should still identify the savings/additional revenue expected to be realized over the life of the loan.

We accept the Department's response that future loan agreements will be established to provide savings will be deposited to the State's General Fund. The Department should also work with the Legislature to determine what amount of savings previously deposited to the Innovations Fund, if any, should be transferred to the General Fund.

(2) **Awarding and Administration of Loans** – During our review of the loans awarded by the State Innovations Fund Committee and administered by DOM, we identified the following:

- The Committee has not developed policies and procedures to provide guidance in evaluating loan applications and preparing loan agreements. In addition, DOM has not developed policies and procedures to aid in administering and monitoring the loans.

- The Committee meets to review and approve or deny loan applications. Minutes of Committee meetings documenting the approval of two loans could not be located. The minutes also did not identify the amount approved for two loans. In addition, each member's vote or significant discussions between the Committee members and DOM were not consistently documented in the Committee's minutes. Based on our review of documentation related to certain loans, it appears the Committee did not always formally meet to discuss applications and loan approvals. It appears several loans were reviewed independently by Committee members and approvals were granted via electronic mail communications.

- Documentation of how the Committee determined the interest rate of each approved loan was not available. Because supporting documentation was not provided, we cannot determine if interest rates were determined on a consistent basis.

- DOM does not verify loan proceeds are spent in accordance with the terms of the loan agreement.

- According to the loan agreements, each agency awarded a loan is required to submit semi-annual reports to DOM for the term of the loan. DOM does not monitor whether the semi-annual reports are submitted. In addition, DOM does not review the reports to ensure the data presented is reasonable and comparable to expectations.

Recommendation – Procedures should be implemented to ensure:

- appropriate guidance is provided to members of the Committee when evaluating loan applications and preparing loan agreements and to aid DOM in administering and monitoring the loans.

- the minutes of the Committee document all significant actions.

- documentation of how the Committee determined the interest rate of each approved loan is maintained.

- DOM verifies loan proceeds are spent in accordance with the terms of the loan agreement.

- DOM monitors whether the semi-annual reports are submitted as required and the data presented in the reports is correct.

Response – An evaluation tool has been in place since 2000 to guide committee members in evaluating loan applications. (See **Appendix B.**)

Minutes of all Innovation Fund Committee meetings where loan applications are reviewed will include expanded detail.

The policy of linking the IF loan rate to the five year Treasury bond rate was adopted when approving the initial group of loan applications in 1995. This policy has remained in place since (see **Attachment 1**). The current procedure of seeking verbal confirmation of the five year federal treasury bond rate from the State Treasurer's Office at the time of approval of each loan will be replaced with a request for written confirmation of the rate from the Treasurer's Office in the future. This documentation will be added to each loan file.

DOM currently relies on semi-annual reports to verify that loan proceeds are spent in accordance with terms of the loan agreement. We will consider additional procedures for verification, including review of invoices.

Monitoring has been in place since 2000, but not all agencies have complied. Appropriate sanctions for not submitting semi-annual reports will be considered.

Conclusion – The evaluation tool included in **Appendix B** is not currently required to be used by Committee members. Use of the evaluation tool should be required to ensure consistency and consideration of all necessary factors.

(3) **Certification of Repayments** – Section 8.63(4)(b) of the *Code of Iowa* allows the Committee to approve a loan and require repayment by DRF (rather than the agency awarded the loan) when DOM and DRF certify savings from a project will result in an increase to the State's General Fund without a corresponding savings to the agency.

The Committee approved loans to IDOP and DOM that were to be repaid by DRF. We requested documentation related to the certification of the loans to IDOP and DOM. No support could be found for the IDOP loan. For the loan issued to DOM, we were provided with a memorandum to the Committee. A copy of the memorandum is included in **Appendix F**. The memorandum does not document DOM and DRF's certification of the loan in accordance with section 8.63(4)(b) of the *Code*.

Recommendation – Documentation of DOM and DRF's approval of certified loans should be retained.

Response – The January 4, 2002 memo (see **Appendix F**) to the Innovation Fund Committee documents that the DOM GEMS loan was certified (preliminary review team approval), and the February 4, 2000 memo (see **Attachment 2**) provides documentation of certification (approval) of the IDOP Deferred compensation loan by the preliminary review team.

Conclusion – We acknowledge the Department's response that the preliminary review team's approval constitutes the certification. However, documentation of the certifications made by DRF and DOM should be prepared and signed by appropriate personnel within the Departments of Management and Revenue and Finance rather than the Fund Coordinator.

(4) **Loans Awarded to Agencies** – During our review of the loans awarded to agencies, we identified the following concerns:

a. **DNR: Energy Efficient Improvements** – Prior to awarding the loan, the Committee should have questioned the cost savings identified in the loan application, as well as the availability of funds for repayment. Based on the information in the application, it was clear savings were not going to be realized by DNR and no other funding source for repayments was identified.

Subsequently, DNR was not able to make loan repayments in accordance with the schedule included in the loan agreement. While DNR worked with DOM in deferring payments in an appropriate manner, when the final payment was made by another entity, additional interest was not accrued for the extended time period the principal amount was outstanding.

In addition, the Committee approved the loan on December 12, 1995. The loan agreement was signed on May 21, 1997. However, DNR began drawing proceeds from the loan in August 1996.

Recommendation – Prior to awarding loans, the Committee should ensure savings identified in the loan applications are reasonable and proposed funding sources are specifically identified. Also, the Committee should ensure a loan agreement is in place before the loan proceeds are provided to the applicant.

In addition, DOM should ensure all interest is properly accrued when payments are made on outstanding loans.

Response – The DNR loan was approved under the prior administration. The establishment of Code section 8.63(4)(b) in 2000 now provides for a mechanism to repay a loan for a project that benefits the General Fund without a corresponding savings to the agency requesting the loan.

Language will be included in all future repayment agreements to specify that a recalculation of interest payments is required prior to approval of any revised loan repayment schedules.

The incidents relating to the timing of the signing of loan agreements prior to issuance occurred during the prior administration. The policy applied since January 1999 requires a signed loan agreement before funds are disbursed.

Conclusion – Response accepted.

b. **DGS: Mail Processing System** – In the pre-application, DGS requested $209,000 to acquire specialized hardware and software. However, the Innovations Fund Committee awarded DGS $291,645. Documentation was not maintained to support the increase in the amount awarded to DGS.

The Committee approved the loan on December 12, 1995. The loan agreement was signed by the Director of DGS on April 11, 1997 and the Director of DOM on December 31, 1997. However, DGS received proceeds from the loan in September and October of 1996.

According to a representative of DGS, savings were not realized as expected because agencies using the mail system did not modify the size and format of the items processed through the mail in order to achieve the expected efficiencies. The representative stated the agencies did not make the modifications because of the associated costs. Because the changes proposed by DGS affected the operations of and costs incurred by other agencies, DGS should have sought input from other agencies prior to applying for funds. DGS should have inquired about the agencies' ability and willingness to comply with new formats required by the proposed system.

Recommendation – The Committee should maintain documentation to support all decisions made during the loan application and approval process. The Committee should also ensure loan proceeds are not drawn until a loan agreement is in place.

Because the success of some projects depends on participation of other agencies, the Committee should ensure the applicant has determined the likelihood others will participate or comply with the proposed project prior to approval.

Response – Documentation of loans has improved since the change in administrations and we will continue to review and improve documentation procedures.

Conclusion – Response acknowledged. However, we must reiterate our recommendation the Committee, when applicable, determine likelihood of participation or compliance by others.

c. **DIA: Verification of Assistance Applications** – While the loan was applied for and received by DIA, it was done in conjunction with DHS. The loan agreement contains language that makes it clear the loan and savings/additional revenue were to be paid by DIA with funds provided by DHS. When DIA was not able to make the scheduled payments because DHS did not provide the funds required, DOM allowed DIA to continue to draw loan proceeds.

In addition, the Committee took no action to officially forgive the loan. DIA received a letter from DOM in April 2003 providing official acknowledgment the remaining principal payments and projected interest had been forgiven. A copy of the letter is included in **Appendix E**. The letter was sent to DIA after we requested to review documentation supporting forgiveness of the loan.

Recommendation – DOM should have sought repayment of the loan from DHS in addition to DIA. In the future, DOM should ensure all parties to the loan agreement are held responsible for repayment of the loan to the extent possible.

DOM should implement procedures to monitor loans and identify when repayments are not made in accordance with the terms contained in the loan agreements. Agencies that have not complied with repayment terms should not be allowed to continue to draw loan proceeds unless there are extenuating, documented circumstances which are reviewed and agreed to by the Committee. Also, agencies that have demonstrated significant noncompliance with the repayment terms should be required to return the principal of the loan along with any accumulated interest to the Innovations Fund.

In addition, the Committee, rather than DOM, should grant forgiveness of loans. The discussions and considerations made by the Committee should be documented and maintained.

Response – Since the beginning of the Innovation Fund Loan Program, procedures have been place to monitor loan repayments. Payment schedules are monitored and financial data for the program is tracked within DOM on a monthly basis. DOM was aware of DIA's delinquency in repayments, and directed DIA to resolve the situation with DHS. When DIA was unable to resolve the issue, DOM sought to mediate the issue but was unable to reach a satisfactory result. It is our understanding, however, that DHS did not believe it could remit any savings.

In the future, no loan draws will be allowed if loan repayments are not being made in accordance with terms of a loan agreement. In the event a situation arises where a borrower is in default on a future loan repayment, the decision whether to forgive a loan will rest with the Committee and documented.

Conclusion – Response accepted.

d. **TOS: College Savings Iowa Software** – The loan agreement called for TOS to calculate savings each July 31st for the fiscal year ending the previous June 30. TOS has not calculated savings. According to a representative of TOS, the agency does not anticipate making any savings payments to the Innovations Fund because the Legislature no longer appropriates funds to TOS for administration of the program. Neither party to the loan agreement has taken any action regarding the loan agreement.

Recommendation – Representatives of DOM or the Committee should contact TOS representatives to identify and ensure an appropriate resolution of the loan agreement.

Response – The loan to Treasurer of State for College Savings Iowa did not include a savings schedule, because general fund money was not requested to fund the program beyond FY 2001. In essence, the dollars formerly appropriated to College Savings Iowa were direct savings to the general fund. Although the loan agreement contained language saying that savings would be calculated and remitted, no savings accrued to the agency.

Conclusion – We concur that because funds were not appropriated to the program after fiscal year 2001, direct savings was realized by the General Fund. However, the elimination of the appropriated funding was not anticipated at the time the loan application was submitted and the loan approved. Therefore, the loan agreement was established with the expectation TOS would realize savings and remit the appropriate amount to the General Fund. Because circumstances have changed, the loan agreement should be appropriately modified, as we have recommended above.

e. **IDOP: Deferred Compensation Match** – The loan agreement documents DRF was expected to repay the loan. The repayment schedule included in the loan agreement is based on estimated savings. However, DRF has made payments based on the actual savings identified in the semi-annual reports submitted by IDOP rather the terms of the loan agreement.

Recommendation – The Committee should ensure loan repayment schedules included in the loan agreements are based on reasonable expectations. DOM should implement procedures to ensure compliance with the terms of the loan agreement.

Response – Both IDOP and the Committee believed the original repayment schedule was based on reasonable expectations. In the event that a future repayment schedule is not being met, DOM and the Committee will require detailed documentation explaining the reasons and justification for revising the schedule.

Conclusion – Response accepted.

f. **DOM: Grants Enterprise Management System** – As stated in **Finding (3)**, section 8.63(4)(b) of the *Code of Iowa* allows loan repayments to be made by DRF if DOM and DRF certify savings from a project will result in an increase to the General Fund without a corresponding cost savings to the agency awarded the loan. DOM approved and certified a loan for which they applied. As the party to receive the loan and not be required to make repayments, DOM does not appear independent to approve and certify the loan.

In addition, DOM did not complete the return on investment section in its loan application in accordance with section 8.63(3) of the *Code of Iowa.*

Recommendation – In the future, DOM representatives should recuse themselves from the approval and certification process when DOM is the applicant.

In addition, the Committee should ensure all applications include a projected return on investment prior to considering the loan for approval.

Response – DOM did recuse itself from approving the application after certification (see **Attachment 3**). The DOM staff names shown in the handwritten comments on the January 4 memo are the administrator's notes and include both preliminary review team and Committee approvals. These notes were not included in the copy of the memo sent to the Committee. DOM will recuse itself from the process in the event of any future loan requests by DOM. Certification decisions for any loan request from DOM will lie solely with the State Accounting Enterprise of DAS.

Although the DOM loan application submitted for GEMS did not show the return on investment analysis in the application, ROI information pertaining to this loan was requested and reviewed by the preliminary review team (see **Attachment 4**). In the future, any application not containing an ROI analysis within the application will be sent back to the applicant agency by the DOM administrator for completion of the necessary information within the loan application before either the preliminary review team or Committee reviews the application.

Conclusion – The memorandum copied in **Attachment 3** was provided to us by the Fund Coordinator on December 4, 2003, after our finding had been provided to the Department for response. Documentation of this type was not provided to us during our fieldwork for this review. The memorandum states the loan was approved by "all of the non-DOM members of the committee." The memorandum dated January 11, 2002 goes on to state the Fund Coordinator will work with the representative of DOM to finalize a loan agreement. However, the loan agreement for this project was signed by all parties on January 10, 2002.

Items for Further Consideration

The Legislature established the Innovations Fund to stimulate and encourage innovation in state government by providing loans to agencies that propose viable projects which would result in savings or additional revenue to the State's General Fund. We recommend the Legislature consider whether the program has met its intent and should continue to be administered. The following points are summarized for the Legislature's consideration.

- During the eight years the Innovations Fund has operated, only ten projects have been established with proceeds from the Fund. Of those projects, only one has provided a substantial financial benefit. With loan proceeds of $275,355, the Department of Revenue and Finance (DRF) implemented a program to automate certain operations performed in their field offices. As a result of the program, the Department has deposited $5,349,763 of savings to the Innovations Fund as of June 30, 2003. The Department has been allowed to retain an equal amount of savings.

- The loan agreement with DRF, mentioned above, includes a savings schedule that required semiannual payments from June 1997 to June 2001. DRF agreed to continue making semiannual payments to the Innovations Fund after the term of the loan expired. DRF also continues to retain 50% of the savings resulting from the project implemented with the loan proceeds. The Legislature should consider adding language to the *Code* limiting the savings retention to the loan term. Once the loan term has expired, all savings/additional revenue should be deposited to the State's General Fund.

- Section 8.63 of the *Code of Iowa* allows loans to be awarded from the Innovations Fund when the Committee determines an agency request would result in savings or additonal revenue to the State's General Fund. Currently, all loan repayments, interest and savings/additional revenue amounts are deposited to the Innovations Fund. We recommend the Legislature consider adding language to section 8.63 of the *Code of Iowa* requiring the Innovations Fund be operated as a revolving loan account. This would allow the principal payments to be redeposited to the Innovations Fund, while all savings/additional revenue and interest resulting from projects would be deposited to the State's General Fund. Additionally, if the Legislature requires the Innovations Fund to be operated as a revolving loan account, the excess balance should be transferred to the State's General Fund.

- It is questionable whether two of the loans awarded have met the intent and definition of "innovative." Two of the ten projects for which loans were awarded did not appear to be new projects or processes, but rather extensions of existing programs. The project for which DNR received funding was the same function being performed by the State of Iowa Facilities Improvement Corporation (SIFIC). DNR requested a loan from the Innovations Fund because funding limitations allowed SIFIC to work with agencies only on a limited basis. In addition, DIA received funding to more fully staff the investigation functions performed by the Department.

- The Legislature should evaluate the budgetary impact on agencies resulting from projects implemented with Innovations Fund proceeds.

If the Legislature determines the program should continue, DOM should take a more active role in administering, monitoring and enforcing the terms of the loan agreements.

SCHEDULE

Summary of Activity

For the Period July 1, 1995 through June 30, 2003

Description	Loans	Loan Repayment Principal	Loan Repayment Interest
Appropriation			
Loans:			
DNR: Energy efficient improvements	$ 150,000.00	150,000.00	20,780.00
DGS: Mail processing system	291,645.00	291,645.00	32,784.77
DRF: Field office automation	275,355.00	275,355.00	37,860.00
ICN: Billing process	111,000.00	111,000.00	5,502.00
DIA: Verification of assistance payments	429,426.00	41,145.09	9,508.00
DGS: Fleet management	300,000.00	228,166.45	31,577.79
TOS: College Savings Iowa software	598,682.00	287,430.09	57,713.23
IDOP: Deferred compensation match	330,000.00	227,401.45	21,614.25
DOM: GEMS	277,070.00	-	-
DRF: Filing reduction initiative	103,375.00	-	-
Transfers	-	-	-
Interest earned	-	-	-
Account correction	-	-	-
Printing and miscellaneous expenses	-	-	-
Totals	$ 2,866,553.00	1,612,143.08	217,340.04

Savings Payments	Legislative Mandated Transfers	Miscellaneous Revenues	Miscellaneous Expenditures	Net Activity
				$ 1,000,000.00
-	-	-	-	20,780.00
23,347.00	-	-	-	56,131.77
5,349,762.50	-	-	-	5,387,622.50
18,825.00	-	-	-	24,327.00
-	-	-	-	(378,772.91)
-	-	-	-	(40,255.76)
-	-	-	-	(253,538.68)
-	-	-	-	(80,984.30)
-	-	-	-	(277,070.00)
-	-	-	-	(103,375.00)
-	3,043,051.00	-	-	(3,043,051.00)
-	-	534,585.86	-	534,585.86
-	-	250.00	-	250.00
-	-	-	686.71	(686.71)
5,391,934.50	3,043,051.00	534,835.86	686.71	2,845,962.77

Staff

This review was conducted by:

Annette K. Campbell, CPA, Director
Randi J. Rowedder, CPA, Senior Auditor II
Nicole B. Tenges, Staff Auditor
Jake P. Keegan, Assistant Auditor

Tamera S. Kusian

Tamera S. Kusian, CPA
Deputy Auditor of State

APPENDICES

INNOVATIONS FUND

Innovations Fund

Loan Application Form

Application For InnovationAnd Reengineering Funds

Innovations Fund

Loan Application Form

This application is required of any agency seeking funding for information Innovation Fund projects or Reengineering Fund projects. Each section must be completed fully and accurately in order for the application to be considered.

Department ______________________________

Person Submitting Form ______________________________

Phone Number / E-mail ______________________________

Department Head Approval ______________________________

Section One: ***Project Description***

Please provide a complete description of the project for which you are seeking funding. This should include a general description of the project, the rationale or justification for undertaking the project and a schedule for the project.

Section Two: ***Project Goals***

Innovations Fund

Loan Application Form

List the goals for the project. These goals should be succinct, clear and specific to the project and the underlying service affected.

Section Three: ***Project Benefits***

List the benefits (e.g. reduction in cycle time, speedier response, cost savings, increase in customer service, etc.) associated with this project. These benefits can be "soft" benefits that do not carry a monetary savings with them. To the extent possible, quantify these benefits.

Section Four: ***Project Performance Measures***

List the performance measures for the project. Performance measures should be objective, quantifiable measures of the results of the ***underlying service*** being provided. They can measure quality, quantity, cycle time, cost per unit or some other meaningful result.

Section Five: ***Support of Departmental and Enterprise Goals***

Briefly describe how this project will help support enterprise goals and your department's business goals. Your description should focus on the strategic impact of initiating and completing the project.

Section Six: ***Customer Base***

Who are the customers that will benefit from this project? Please consider both internal and external customers.

Section Seven: ***Project Cost***

What is the total estimated cost of this project? $____________________________

Will the expenditures for this project cover more than one fiscal year?

[ ] YES [ ] NO

If yes, please provide the estimated cost by fiscal year.

FY______ $____________________________

FY______ $____________________________

FY______ $____________________________

Section Eight: ***Funding Requested***

What is the total amount of funding you are seeking on this application?

$____________________________

Include with this application a budget or other breakout showing how you would spend the requested funds.

From what source(s) are you seeking funds?

[ ] Reengineering Fund
[ ] Technology initiative through a budget request
[ ] Innovation Fund

Preference will be given to projects partially or fully funded from the Innovation Fund.

Section Nine: *Other Sources of Funding*

Indicate how the project will be funded. This should be expressed in percentage terms. Base your breakdown of funding only on known sources of funding. Do not include the amount being applied for on this application.

State Funds ________%

Federal Funds ________%

Other Funds ________%

Please also describe how the funding requested in this application relates to other funding involved in the project.

Section Ten: *Return on Investment*

As part of this application process, you are required to provide a cost/benefit analysis for your project. In completing the following spreadsheet, the following definitions will be helpful:

Annual Pre-Project Costs - These are the current operating costs/expenses associated with carrying out the underlying process(es) affected by the project. These costs include all direct costs of performing the work involved including personnel costs, support costs and other relevant costs.

Annual Post-Project Costs - These are the operating costs/expenses that you anticipate once the project is fully implemented. Again, include all direct costs associated with performing the work.

Cost to Implement the Project - This amount is your investment in the project including consulting fees, technology (hardware, software and development) and any other hard cost.

Net Savings - Net savings is the difference between "annual pre-project costs" and "annual post-project" costs.

Annual Return on Investment - The calculation for annual return on investment is "net savings" divided by "cost to implement project".

Innovations Fund

Loan Application Form

Cost/Benefit Analysis

Annual Pre-Project Costs To Perform Work	**Year One**	**Year Two Forward**
FTE Cost:		
Support Cost: *		
Other Costs: **		
Total Pre-Project Costs		

Annual Post-Project Costs To Perform Work		
FTE Cost:		
Support Cost: *		
Other Costs: **		
Total Post-Project Costs		

Net Savings		
Cost to Implement Project		
Annual Return On Investment		

* Supplies, telephone, travel, etc.
** Expense items other than FTEs and support costs.

Section Eleven: *System Compatibility*

Will this system be compatible with other systems in the department? [ ] YES [ ] NO

Will this system be compatible with other systems in the enterprise? [ ] YES [ ] NO

If either question is no, why?

Innovations Fund

Application Review Form

Innovation Fund Application Review

Agency Name______________________________

Brief Description of Project______________________________

____

____

____

Requested Amount ______________________________

Criteria	Comments	Potential Points	Points Awarded
Potential for Reengineering: *Does the proposed project offer the potential to deliver current service(s) in a more efficient and cost effective manner?* Proposals awarded funding should show evidence a failure most effectively meet customer needs or identify inefficiencies evidenced by excessive costs, re-work, delays, old technology, layers of administration etc.		20	
Strategic*: Would funding of the proposed project facilitate the achievement of the Executive Branch vision, enterprise planning team goals, or the agency's vision ,mission, goals and objectives?* Projects awarded funding should relate to the achievement of strategic goals and objectives.		20	
Measurable: *Have clear, objective, quantifiable performance measures been established to measure success? Is it clear that savings will result if the project is funded?*		30	
Impact: *Is their significant impact for customers and/or the agency(s) or enterprise?* Projects funded should be important to the agency and its customers and multi-agency or enterprise benefits are preferred.		30	
		100	

Innovations Fund

Promissory Note and Loan Agreement

INNOVATION FUND PROMISSORY NOTE AND LOAN AGREEMENT

BETWEEN IOWA DEPARTMENT OF MANAGEMENT (DOM)
State Capitol Building
Des Moines, Iowa 50319

AND ______________________________
____
____
____

DOM Contact Person: ________________________
____

Agency Contact Person: ________________________
____

Principal Amount of Loan:: ________________________

WHEREAS, the Innovation Fund Committee (Committee) is authorized by Iowa Code section 8.63 (Code Supplement 1995) to approve loans to state agencies of funds in the Innovation Fund if the Committee determines that the loan would result in cost savings or added revenue to the general fund of the State of Iowa;

WHEREAS, the Innovation Fund is managed by DOM;

WHEREAS, the application submitted by the Agency has been approved by the Committee as meeting the requirements of the Innovation Fund criteria; and,

WHEREAS, DOM and the Committee desire to make a loan to the Agency and the Agency desires to accept this loan upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, in consideration of the mutual promises contained herein, DOM and the Agency agree as follows:

1. As used in this Agreement, the term "Project" means the detailed description of the work, services, program and other obligations to be performed or accomplished by the Agency as described in Attachment A, Loan Application, and approved by the Committee. The Agency shall use the loan proceeds to implement the approved Project and for no other purpose without the express written consent of DOM. The Agency shall implement the project not later than _________. If the Agency fails to make timely, substantial and material progress toward implementation of the Project by the implementation due date as stated above, DOM may declare the Agency in default of its obligations under

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Innovations Fund

Promissory Note and Loan Agreement

this Agreement, and may withhold further or additional disbursements of loan proceeds to the Agency until the breach has been cured, or may obtain from the Agency immediate repayment of all disbursed loan proceeds, together with accrued interest thereon. If the Agency substantially discontinues or materially alters the Project as outlined in the Loan Application, DOM may declare the Agency in default of its obligations under this Agreement, and, if such default is declared, all outstanding principal and accrued interest to the date of default shall be immediately due and payable.

2. The Committee, through DOM agrees to make a loan in the principal amount of $________with interest thereon at____% for a period of_______ years, commencing on or about _______ and ending on ______. Interest on the principal amount shall begin accruing on the date of disbursement of any part of the loan proceeds to the Agency. The Agency agrees to repay the principal amount of the loan together with interest thereon in accordance with the schedule outlined below:

Payment Date	***Principal***	***Interest***	***Total***

3. If the Agency fails to make any payment when due, DOM may declare the Agency in default of its obligations under this Agreement. If DOM declares the Agency to be in default, all outstanding principal together with accrued interest to the date of default shall be immediately due and payable.

4. The outstanding principal and accrued interest of this Agreement may be prepaid in part or in full without penalty to the Agency.

5. In the event that the Agency fails to requisition the full principal amount of the loan, then the amount of any installment payment shall be reduced accordingly in equal amounts.

6. The Agency is authorized by this Agreement to retain not more than __% percent of savings or revenue generated in connection with this loan pursuant to Iowa Code section 8.63 (Code Supplement 1995). Additionally, the Agency shall repay the remaining percentage of savings or revenue generated to the Innovation Fund in accordance with the following schedule:

____

____

____

____

____

____

7. All payments under this Agreement shall be applied in the following order: (1) To Interest, and (2) To Principal.

8. The Agency shall make periodic Project reports to DOM as requested by, and in format prescribed by DOM, in accordance with the schedule set forth as follows: <u>Semi-annual reports due January 31 for the period from July 1 to December 31 each year, and July 31 for period from January 1 to June 30 each year.</u>

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Innovations Fund

Promissory Note and Loan Agreement

9. This Agreement may be terminated as a result of the Agency's default or as a result of the termination or reduction of funding to the Innovation Fund.

10. DOM and the Agency acknowledge that both parties to this Agreement are public entities, authorized by the Iowa constitution or state law and each is a part of Iowa state government, that both are governed by the laws and regulations of this State as well as by applicable federal laws and regulations. DOM and the Agency agree that they will not do or cause to have done any action which violates applicable state or federal law with respect to the Project subject of this Agreement or this Agreement.

11. DOM and the Agency agree that any and all disputes with regard to this Agreement shall be resolved by the Committee, and neither party to this Agreement shall have or maintain any other cause of action against the other.

12. If an action is threatened or brought by a third party against DOM, the Agency or the State of Iowa in connection with the Project or this Agreement, DOM, the Agency and the State of Iowa shall be represented and defended in accordance with state law.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date stated below:

For the Agency: ______________________________ **Title:** Director **Date:** ______________
(Authorized Agency Signatory)

For DOM ______________________________ **Title:** Director **Date:** ______________
(Authorized DOM Signatory)

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Innovations Fund

Copies of Correspondence from Department of Natural Resources

STATE OF IOWA

DEPARTMENT OF NATURAL RESOURCES

THOMAS J. VILSACK, GOVERNOR
SALLY J. PEDERSON, LT. GOVERNOR

PAUL W. JOHNSON, DIRECTOR

August 25, 1999

Jim Chrisinger
Director of Policy and Planning
Department of Management
Capitol Building
LOCAL

Dear :Mr. Chrisinger

This letter is to provide an update on the status of the Department of Natural Resources' (DNR), upcoming Innovation Loan Fund loan payment of $85,390 due September 1, 1999. In a letter sent to you dated May 10, 1999, a two-month deferral was requested because the DNR fully expected to receive approval from the Department of Human Services (DHS) to proceed with a large project for the Glenwood State Hospital-School by the end of May. However, because final approval of the project was not received until August 9, the lease for this project will not be closed, and the DNR Innovations Program will not receive the program fee of $177,996 by September 1, 1999.

Because of this delay, the Legislative Fiscal Bureau (LFB) did not complete their review of the LFB prior notification packet until August 25. Since work could not start on the design/bid and lease procurement processes until after LFB's review process was complete, the DNR Innovations Program will not be able to make its payment of $85,390, on the currently scheduled due date of September 1, 1999. Therefore, the DNR Innovations Program is requesting an additional four-month deferral of this payment, thereby making the new due date on or about January 3, 2000. 8/31/99

Please return a copy of this letter with your initials on the new due date for our records. If you have any questions, or require additional information, please contact Dan Lane at 281-6696.

Sincerely,

Sharon A. Tahtinen

Sharon A. Tahtinen, Chief
Energy Bureau

WALLACE STATE OFFICE BUILDING / DES MOINES, IOWA 50319 / 515-281-5145 / FAX 515-281-6794 / TDD 515-242-59..

Copies of Correspondence from Department of Natural Resources

STATE OF IOWA

Jeff 7/4/0

DEPARTMENT OF NATURAL RESOURCES

THOMAS J. VILSACK, GOVERNOR
SALLY J. PEDERSON, LT. GOVERNOR

PAUL W. JOHNSON, DIRECTOR

April 13, 2000

Steve Maslikowski
Innovation Fund Manager
Department of Management
Capitol Building
LOCAL

Dear Mr. Maslikowski:

This letter is in response to your telephone call to Larry Bean regarding the status of the Department of Natural Resources' (DNR) Innovation Loan Fund loan payment of $85,390 due on January 3, 2000. In a letter sent to Jim Chrisinger dated August 25, 1999, a four-month deferral was requested because the DNR expected to close on a lease with the Department of Human Services (DHS) to proceed with a project for the Glenwood State Hospital-School by late December. Upon the closing of this lease, DNR was to receive a program fee payment of approximately $177,996.

However, in October 1999, we learned that there would be additional delays associated with the Glenwood State Hospital-School project. In previous discussions with Mr. Chrisinger, an agreement was reached that the payment would be made when the Glenwood program fee was received. This letter will confirm for your records that the DNR Innovations Program anticipates making all payments no later than July 1, 2000; payment will be made sooner if receipt of the Glenwood program fee occurs sooner. OK/SM 4-17-00

Please return a copy of this letter with your initials on the new due date for our records. If you have any questions, or require additional information, please contact Dan Lane at 281-6696.

Sincerely,

Sharon A. Tahtinen

Sharon A. Tahtinen, Chief
Energy Bureau

CC: Jim Chrisinger, DOM

Innovations Fund

Copies of Correspondence from Department of Natural Resources

STATE OF IOWA

DEPARTMENT OF NATURAL RESOURCES

THOMAS J. VILSACK, GOVERNOR
SALLY J. PEDERSON, LT. GOVERNOR

LYLE W. ASELL, INTERIM DIRECTOR

November 7, 2000

Steve Maslikowski
Innovation Fund Manager
Department of Management
Capitol Building
LOCAL

Dear Mr. Maslikowski:

This letter is to transmit a check in the amount of $128,085.00 as final payment toward the Governor's Innovation Fund loan to the Department of Natural Resources.

In 1996, the DNR began the Innovations Program with a loan from the Governor's Innovation Loan Fund. The Innovation Fund Committee recognized the Department of Natural Resources' (DNR) ongoing efforts to make Iowa's public facilities energy efficient. The Innovation Fund loan enabled the DNR to staff and implement a program that continued working with state agencies to develop comprehensive energy management plans to install cost-effective improvements.

As State facilities continue to change and age, and technology advances, the need to continue this work persists. With the final payment of this loan, the DNR sustains its commitment to work for energy efficiency and the improvement of Iowa's state facilities, carrying on the success of the Innovations Program through the State of Iowa Facilities Improvement Corporation (SIFIC).

Sincerely,

Larry L. Bean, Administrator
Energy and Geological Resources Division

CC: Jim Chrisinger, DOM
Lyle W. Asell, DNR Interim Director
file

WALLACE STATE OFFICE BUILDING / DES MOINES, IOWA 50319
515-281-5918 TDD 515-242-5967 FAX 515-281-6794 WWW.STATE.IA.US/DNR

Innovations Fund

Copy of Letter from Department of Management Forgiving a Loan

STATE OF IOWA

THOMAS J. VILSACK, GOVERNOR
SALLY J. PEDERSON, LT. GOVERNOR

DEPARTMENT OF MANAGEMENT
CYNTHIA P. EISENHAUER, DIRECTOR

April 4, 2003

Heather Lindsay
Department of Inspections and Appeals
Lucas State Office Building
Des Moines, Iowa 50319

Dear Heather:

With the passing of the final scheduled repayment (March 1, 2003) for the 1998 Innovations Fund loan in the amount of $421,618.84, and in recognition of the following facts:

1. Savings resulting from application of the loan funds for front- end investigation of welfare payments did not accrue to DIA but ,rather, were realized by DHS and the federal government;

2. The department sought, but was unable, to enlist the cooperation of DHS in paying back the loan;

3. Given the state's ongoing fiscal challenges, the department does not have or anticipate having sufficient financial resources within its operating budget to repay the loan.

we will be adjusting our ledgers to reflect that this loan will not be repaid.

Please retain this letter in your files to serve as official acknowledgement that the remaining principal payments of $370,965.75, and projected interest, for the March, 1998 Innovations Fund loan in the amount of $421,618.84 have been forgiven.

Sincerely,

Steve Maslikowski

Steve Maslikowski
Innovations Fund Coordinator
Department of Management

DEPARTMENT OF MANAGEMENT / CAPITOL BUILDING / DES MOINES, IOWA 50319

Innovations Fund

Copy of Memorandum Regarding Loan to Department of Management

STATE OF IOWA

THOMAS J. VILSACK, GOVERNOR
SALLY J. PEDERSON, LT. GOVERNOR

DEPARTMENT OF MANAGEMENT
CYNTHIA P. EISENHAUER, DIRECTOR

MEMORANDUM

TO: Innovation Fund Committee

FROM: Steve Maslikowski

DATE: January 4, 2002

SUBJECT: Dept. of Management Application- Grants Enterprise Management

The Innovation Fund Committee's preliminary review team met with representatives of the Department of Revenue and Finance today and approved the attached application. Also attached is a one page summary sheet.

In checking your schedules, we cannot arrive at a meeting date that will work for most of you in the near future.

Please contact me by eob next Thursday, January 10, to let me know if you support approval of the application or if you prefer we meet as a group to review the application before reaching a decision.

If you have any questions, please let me know.

Approved

Bauer Bair Leto
Sperry Reid
Lindner Hughes
Eisenhauer Anderman

DEPARTMENT OF MANAGEMENT / CAPITOL BUILDING / DES MOINES, IOWA 50319

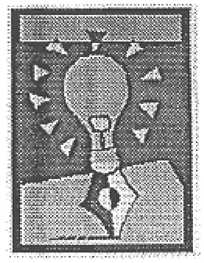
ATTACHMENTS

Note: **Attachments 1** through **4** were provided by the Innovations Fund Coordinator as part of the responses to our findings and recommendations.

INNOVATIONS FUND

Innovations Fund

Information Regarding Innovations Fund Loan Rate



INNOVATION FUND COMMITTEE

SUMMARY OF MEETING
OF DECEMBER 12, 1995

The first meeting of the Innovation Fund Committee was held at 2:30 on December 12, 1995, to review five applications recommended for funding by the Innovation Fund support staff.

Janet Phipps, Director of the Department of General Services, presided as acting chair of the committee in the absence of the chair, Gretchen Tegeler. Also present at the meeting were: David Lyons, Director, Department of Economic Development; Doug Couto, Chief Information Officer for the State of Iowa; Mark Wright, Vice President, Firstar Bank; and Tracey Conner as substitute for Jan Corderman, President of AFSCME. Not attending the meeting were committee members Gretchen Tegeler, Warren Dunham, Cindy Eisenhauer, Jan Corderman, and Judy Stumbo.

A legislative appropriation of $1,000,000 was made to establish the Innovation Fund in 1995. That amount less a reserve of $200,000, or a net of $800,000, was available to the Committee for loans. Since $1,321,895 would be required to fully fund all five applications selected by the support staff, the Committee was asked to choose those applications which would best meet the criteria of the fund and would fall within the $800,000 limitation. In making final loan selections, the Committee used the following criteria:

- Benefits other state agencies
- Results in "hard" vs. "soft" savings
- Proposal is a creative or innovative idea
- Provides continuing benefit
- Generates revenue

George Price, Innovation Fund project leader, explained that a total of 59 applications for funds had been received, and he described the selection process used by the support staff to make final recommendations to the Committee. After a brief discussion by the Committee of each of the five applications recommended by the support staff, each member ranked the applications on a scale of 1 (top rating) to 5. Staff from each agency requesting funds were available by telephone for questions during the Committee's deliberations. Gretchen Tegeler's rankings had been received prior to the meeting and were recorded with rankings of the other members. The attached summary shows how each committee member ranked the loan applications.

Innovations Fund

Information Regarding Innovations Fund Loan Rate

Following is a summary of the selections made by the committee:

Recommended Priority Ranking by Support Staff	I.F. No.	Agency	Description	One-time Cost	Loan Approved by Committee	Accum. 5-Yr. Savings
1	#27	DGS	Computerized Mailing System	$291,645	$291,645	$898,040
2	#4	DHS	Purchase Vehicles, Operate Patient Transportation System	$83,000*	$83,000*	$604,510
3	#12	DNR	Implement Energy Efficiency Improvements	$150,000	$150,000	$1,700,000
4	#26	ICN	Install Computerized Billing System	$393,000	-0-	$552,550
5	#43	DRF	Upgrade Field Office Technology	$404,250	$275,355	$1,750,000
		TOTAL		$1,321,895	$800,000	$5,505,100

*Revised subsequent to Committee approval. (Original cost $73,822, savings $595,921).

After discussion, the Committee approved the following terms for all four Innovation Fund loans:

- Five-year loan repayment schedule,
- Interest on all loans equal to the five-year Treasury Note interest rate,
- A return to the fund of 50% of savings realized, less interest, on all loans.

In general discussion, the Committee suggested that an explanation be provided to describe why funding was not approved for the 55 applications which did not receive loans. It was also suggested that in the future more cost details be provided by agencies to support their request. At future loan review meetings each agency may be asked to make a short presentation which would give Committee members an opportunity to ask questions. George Price presented a cash flow summary for the Innovation Fund which indicated that in the second full year, the fund should be restored to over $1 million from interest, loan repayments, and the fund's share of savings - and ready for the second round of loans.

George Price explained that special recognition plaques will be given by Governor Branstad to those agencies receiving loans. A certificate will be provided to all other applicants with a letter from Gretchen Tegeler, Committee chairperson. In addition, a press release will be issued by the Governor and a special Innovation Fund newsletter will be distributed to all state agencies.

Prepared by George Prices
Innovation Fund Project Leader
January 9, 1995

Innovations Fund

Information Regarding Innovations Fund Loan Rate

Steve Maslikowski

From:	Jim Chrisinger
Sent:	Thursday, February 17, 2000 10:58 AM
To:	Steve Maslikowski
Cc:	Andrea Anania
Subject:	IF interest rates

When you're ready to write an Innovation Fund contract and nail down numbers, I have called Steve Miller (formerly Carl Koch) at 1-5084 and asked for the current Five-Year Treasury Note Rate. The last time I did this, December of 1998, the rate was 4.37%. I'm sure it's higher now.

Innovations Fund

Copy of Memorandum Regarding IDOP Application

Fields of Opportunities

STATE OF IOWA

THOMAS J. VILSACK, GOVERNOR
SALLY J. PEDERSON, LT. GOVERNOR

DEPARTMENT OF MANAGEMENT
CYNTHIA P. EISENHAUER, DIRECTOR

MEMORANDUM

TO: Innovation Fund Committee

FROM: Steve Maslikowski

DATE: February 4, 2000

RE: IDOP Application

The DOM/DRF preliminary review team met with representatives of IDOP on February 2 to review the attached IDOP application. The team agreed that the IDOP proposal would result in a net increase in the balance of the general fund and recommended sending the application on to the Innovations Fund Committee. I have scheduled a meeting of the Committee for February 17 to consider action on this application. Members of IDOP will be at the meeting to outline the proposal and answer any questions..

DEPARTMENT OF MANAGEMENT / CAPITOL BUILDING / DES MOINES, IOWA 50319

Innovations Fund

Copy of Memorandum Regarding DOM Application

STATE OF IOWA

THOMAS J. VILSACK, GOVERNOR
SALLY J. PEDERSON, LT. GOVERNOR

DEPARTMENT OF MANAGEMENT
CYNTHIA P. EISENHAUER, DIRECTOR

MEMORANDUM

TO: Innovation Fund Committee

FROM: Steve Maslikowski

DATE: January 11, 2002

SUBJECT: Dept. of Management Application- Grants Enterprise Management

Thank you for your responses to my request for approval of the Department of Management's request to fund the GEM loan. I have received approval from all of the non- DOM members of the committee. DOM members abstained from the vote. I will work with DOM's Kathie Mabie to finalize a loan agreement and repayment schedule.

If you have any questions, please let me know.

DEPARTMENT OF MANAGEMENT / CAPITOL BUILDING / DES MOINES, IOWA 50319

Copy of GEMS Return on Investment Analysis

GRANTS ENTERPRISE MANAGEMENT SYSTEM

Indirect Cost Recovery	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	
% Indirect Cost Reimbursement	0%	10%	30%	80%	100%	100%	
New Indirect Cost Recovery Funds		$9,620	$30,018	$83,672	$109,440	$114,190	
Repayment Schedule							
Principal			$27,707	$41,560	$83,121	$124,682	$277,070
Interest (4.34%)			$12,024	$12,546	$13,092	$27,912	$65,574
Total Payments P&I			$39,731	$54,106	$96,213	$152,594	$342,644