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NEWS RELEASE

FOR RELEASE _____

September 25, 2012

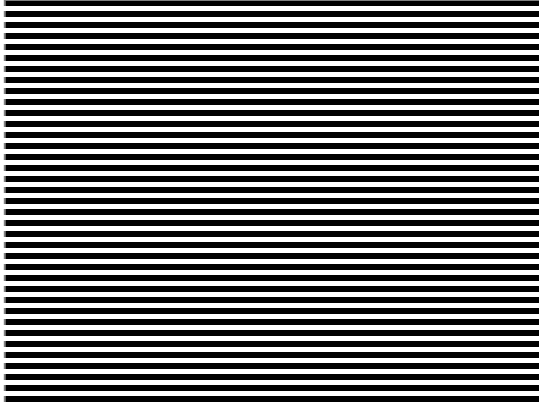
Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released a report on a review of selected general and application controls over the Iowa Public Employees' Retirement System (IPERS) I-Que Pension Administration System for the period June 18, 2012 through July 11, 2012.

Vaudt recommended IPERS develop procedures to monitor system administrator actions, ensure user I.D.s and access rights are removed when an employee terminates employment and establish procedures to periodically review access rights. IPERS has responded positively to the recommendations.

A copy of the report is available for review at IPERS, in the Office of Auditor of State and on the Auditor of State's website at <http://auditor.iowa.gov/reports/1360-5530-BT01.pdf>.

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**REPORT OF RECOMMENDATIONS TO THE
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
ON A REVIEW OF SELECTED GENERAL AND
APPLICATION CONTROLS OVER THE I-QUE
PENSION ADMINISTRATION SYSTEM**

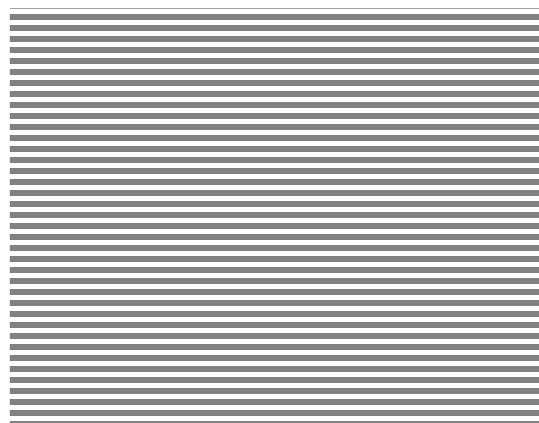
JUNE 18, 2012 to JULY 11, 2012

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
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August 16, 2012

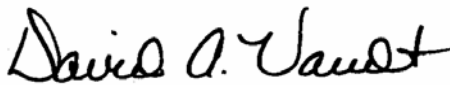
To Donna Mueller, Chief Executive Officer of the
Iowa Public Employees' Retirement System:

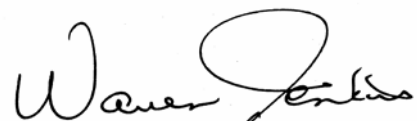
In conjunction with our audit of the financial statements of the Iowa Public Employees' Retirement System (IPERS) for the year ended June 30, 2012, we conducted an information technology review of selected general and application controls for the period June 18, 2012 through July 11, 2012. Our review focused on the general and application controls for the I-Que Pension Administration System as they relate to our audit of the financial statements. The review was more limited than would be necessary to give an opinion on internal controls. Accordingly, we do not express an opinion on internal controls or ensure all deficiencies in internal controls are disclosed.

In conducting our review, we became aware of certain aspects concerning information technology controls for the I-Que Pension Administration System for which we believe corrective action is necessary. As a result, we have developed recommendations which are reported on the following pages. We believe you should be aware of these recommendations which pertain to IPERS' general and application controls over the I-Que Pension Administration System. These recommendations have been discussed with IPERS personnel and their responses to these recommendations are included in this report. While we have expressed our conclusions on IPERS' responses, we did not audit IPERS' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Public Employees' Retirement System, citizens of the State of Iowa and other parties to whom IPERS may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of IPERS during the course of our review. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our review are listed on page 6 and they are available to discuss these matters with you.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

cc: Honorable Terry E. Branstad, Governor
David Roederer, Director, Department of Management
Glen P. Dickinson, Director, Legislative Services Agency

June 18, 2012 through July 11, 2012

I-Que Pension Administration System General and Application Controls

A. Background

The Iowa Public Employees' Retirement System (IPERS) I-Que Pension Administration System is used to process employee and employer contributions, member benefits and adjustments. The first phase of I-Que was rolled out in August 2008 to allow employers to report wages online, submit contribution payments and manage member and employer demographics. The second phase of I-Que was implemented during fiscal year 2012 and is used to process retirement benefits and adjustments.

B. Scope and Methodology

In conjunction with our audit of the financial statements of IPERS, we reviewed selected aspects of the general and application controls in place over the I-Que Pension Administration System for the period June 18 through July 11, 2012. Specifically, we reviewed the general controls: access controls and segregation of duties and the application controls: interface controls and business process controls, including input, processing and output. We interviewed staff of IPERS and we reviewed IPERS' policies and procedures. To assess the level of compliance with identified controls, we performed selected tests.

We planned and performed our review to adequately assess those IPERS operations within the scope of our review. We developed an understanding of IPERS' internal controls relevant to the operations included in the scope of our review. We believe our review provides a reasonable basis for our recommendations.

We used a risk-based approach when selecting activities to be reviewed. We focused our review efforts on those activities we identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, we used our finite review resources to identify where and how improvements can be made. Thus, we devoted little effort to reviewing operations that may be relatively efficient or effective. As a result, we prepare our review reports on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

C. Results of the Review

As a result of our review, we found certain controls can be strengthened to further ensure the reliability of financial information. Our recommendations, along with IPERS' responses, are detailed in the remainder of this report.

General Controls

- (1) Administrator Monitoring – Administrative access rights provide an employee with powerful capabilities and, as such, should be controlled. The number of employees granted administrative access to the Pension Administration System has been limited and all activity is logged. However, management does not review the logs to monitor the activity of the system administrators.

Recommendation – IPERS should establish procedures to monitor the actions of system administrators.

Response - We are currently in the process of purchasing new software which will allow us to monitor all activities of staff with administrative access to the system. We will be able to set parameters which alert us if someone logs into areas identified as vital/restricted. The alerts will be sent automatically via email to Internal Audit and

Report of Recommendations to the Iowa Public Employees' Retirement System

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the Chief Information Officer. The software also produces audit logs which are "read only" and encrypted and will be reviewed by Internal Audit. Once the software is installed and the capabilities examined, we will model a policy indicating the process for continual monitoring of all Administrator access activities. The policy will spell out the frequency of the monitoring, what will be reviewed in the logs and staff positions responsible for the monitoring and reporting.

Conclusion – Response accepted.

- (2) Removal of Access for Terminated Employees – I-Que system access was not removed for seven former employees or interns who terminated employment with IPERS. Three of those seven employees still had network access as well.

Recommendation – IPERS should take steps to ensure user I.D.s and access rights are removed when an employee terminates employment with IPERS.

Response – As stated in the IT Audit Exit Interview, IPERS has a policy in place (which we previously provided) to address this issue. Each time an employee leaves employment, their name is circulated along with an action checklist. In addition we will create queries to identify all staff with active login IDs and ask supervisors to validate the list.

Conclusion – Response accepted.

- (3) Security Access Grid – Access to the I-Que system is determined based on employee roles and responsibilities. Upon review of six employees' access to the system per the Security Access Grid, the following were noted:

Certain employees had access to screens or modules within the system which were not necessary for them to complete their assigned job duties.

The security grid included access rights which were not accurate. In certain cases, the employee did not have access to the screens/modules documented on the Security Access Grid. In addition, two employees reviewed had higher levels of access than indicated on the Security Access Grid.

One employee with access to I-Que per the Security Access Grid did not appear to require access to complete their regular job duties.

Recommendation – IPERS should establish procedures to require the performance and documentation of periodic reviews of access rights for systems processing financial transactions as well as systems containing sensitive or confidential information to ensure employees are granted access rights which are aligned with their assigned job duties.

Response - IPERS will build queries to extract information from I-Que to determine the current access rights for each employee and submit that information to their supervisors for validation. If changes are needed, they will be completed within one week of notification by the supervisor. All notifications will be saved.

Conclusion – Response accepted.

Application Controls

No recommendations were noted in our review of application controls for IPERS' I-Que Pension Administration System.

Report of Recommendations to the Iowa Public Employees' Retirement System

June 18, 2012 through July 11, 2012

Staff:

Questions or requests for further assistance should be directed to:

Erwin L. Erickson, CPA, Director
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Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated in this review include:

Michael R. Field, Senior Auditor
Jessica P.V. Green, Staff Auditor
Michael T. Bunkers, Assistant Auditor