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NEWS RELEASE

FOR RELEASE _____

September 13, 2011

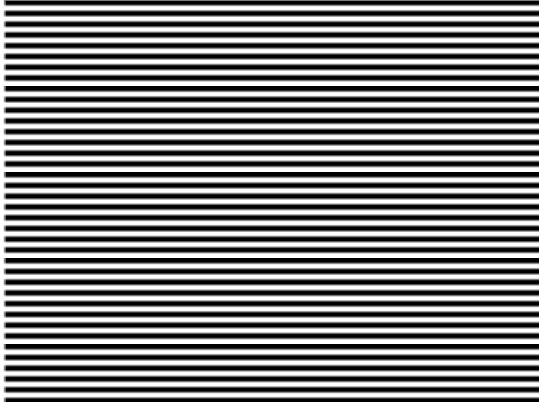
Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on a review of selected general and application controls over the Iowa Public Employees' Retirement System (IPERS) Legacy and I-Que Pension Administration Systems for the period May 16, 2011 through June 16, 2011.

Vaudt recommended IPERS develop procedures to monitor system administrator actions, limit access to the data center and update the disaster recovery plan. 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/1260-5530-BT01.pdf>.

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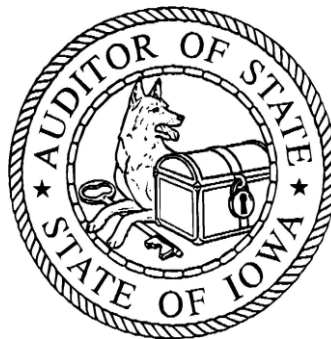


**REPORT OF RECOMMENDATIONS TO THE
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
ON A REVIEW OF SELECTED GENERAL AND
APPLICATION CONTROLS OVER THE
LEGACY AND I-QUE
PENSION ADMINISTRATION SYSTEMS**

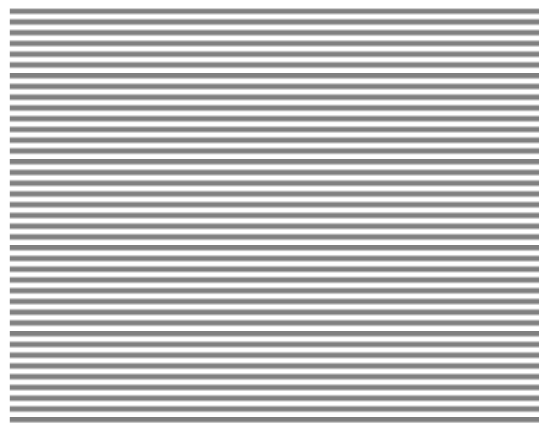
MAY 16, 2011 to JUNE 16, 2011

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
Auditor of State





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August 5, 2011

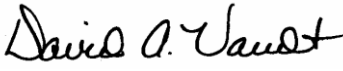
To Donna Mueller, Chief Executive Officer of the
Iowa Public Employees' Retirement System:

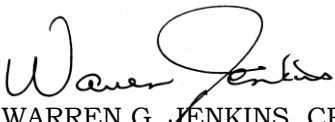
In conjunction with our audit of the financial statements of the Iowa Public Employees' Retirement System (IPERS) for the year ended June 30, 2011, we conducted an information technology review of selected general and application controls for the period May 16, 2011 through June 16, 2011. Our review focused on the general and application controls for the Legacy and I-Que Pension Administration Systems 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 Legacy and I-Que Pension Administration Systems 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 Pension Administration Systems. 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 7 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

May 16, 2011 through June 16, 2011

Legacy and I-Que Pension Administration Systems General and Application Controls

A. Background

The Iowa Public Employees' Retirement System (IPERS) is in the process of developing a new Pension Administration System, I-Que. Currently employee and employer contributions are processed through I-Que while member payments and adjustments are processed under the Legacy System. The first phase of I-Que was rolled out in August 2008 and allows employers to report wages online, submit contribution payments and manage member and employer demographics. The second phase of I-Que is scheduled for implementation during fiscal year 2012 and will enable the processing of retirement benefits through I-Que. The I-Que Pension Administration System will be used to collect and manage member and employer information so benefits can be properly disbursed. Our review focused on the Pension Administration Systems as they are currently functioning.

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 Legacy and I-Que Pension Administration Systems for the period May 16 through June 16, 2011. Specifically, we reviewed the general controls of security management, access controls and service continuity. In addition, we reviewed the process IPERS is using to compare and convert benefit payrolls from the Legacy System to the I-Que System. 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) Data Center Access – Physical security controls restrict physical access to computer resources and protect them from intentional or unintentional loss or impairment. Access should be limited to personnel with a legitimate need for access to perform their job duties.

One employee tested had access to the IPERS Data Center but did not appear to need access to perform job duties.

Report of Recommendations to the Iowa Public Employees' Retirement System

May 16, 2011 through June 16, 2011

Recommendation – IPERS should establish procedures to periodically review the list of individuals with access to the Data Center and remove individuals who do not need access to perform their duties.

Response - Access to the IPERS data center is restricted and controlled by card access. IPERS actively manages the list of staff authorized to access the data center and immediately removes any staff no longer needing access. The employee who was tested had never been authorized to access the data center. Our internal investigation has identified that this individual is a member of a small group of employees whose access rights were inadvertently changed during a recent upgrade of the access software system. The access rights of these employees have been reset to their proper configuration. In addition, IPERS utilizes multiple layers of security surrounding the data center including video monitoring.

Conclusion – Response accepted.

- (2) 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 Systems has been limited. Management does not log or monitor the activity of system administrators.

Recommendation – Management should establish procedures for monitoring the actions of system administrators.

Response - IPERS agrees administrative rights to all systems should be tightly controlled. However, some staff must have administrative rights in order to maintain the systems. The activity of these few system administrators is controlled and monitored through several methods. IPERS has established operating parameters through policies and procedures which limit and define staff activity. IPERS management is responsible for enforcing these policies and procedures. In addition, system logs are automatically generated for most system activity creating a voluminous amount of information. IPERS has not invested in technology tools which are available to comb through these logs on a scheduled basis. IPERS will research these tools to determine the cost of implementing them. Also, it is standard practice to have two employees with administrative rights to each system. This provides a first level check on the system activity of any particular individual. IPERS acknowledges management is ultimately responsible for monitoring the activity of system administrators.

Conclusion – Response accepted.

- (3) Disaster Recovery Planning – Business continuity and disaster recovery plans are designed to help ensure an entity remains functional in the unlikely event of a loss of facilities or personnel. These plans should be updated regularly, periodically tested, distributed to key individuals and maintained in written form at an off-site location.

IPERS has prepared a disaster recovery plan for its IT systems which includes a requirement for information to be updated annually. However, most sections have not been updated since 2005 and the contacts list has not been updated since 2007. In addition, IPERS personnel with responsibilities for calling other personnel in the event of a disaster were unaware of their calling tree duties. Also, the plans do not address the I-Que Pension Administration System although Phase I of I-Que was implemented in August 2008.

Report of Recommendations to the Iowa Public Employees' Retirement System

May 16, 2011 through June 16, 2011

Recommendation – IPERS should update the disaster recovery plan annually and distribute it to all individuals expected to play a key role if the plan is put into action. Also, the plan should be tested periodically and address all critical systems.

Response – IPERS agrees the business continuity and disaster recovery plans are out of date and need to be updated. A lack of resources and prioritization has led to this state. Although the actual wording of the plan itself has not been updated, there are contingencies in place to recover the I-Que Pension Administration System. They simply need to be documented in the plan. In fact, recent technology investments have enhanced recovery options for all critical systems. IPERS intends to update the business continuity and disaster recovery plans, train staff concerning their roles and test the plans.

Conclusion – Response accepted.

Application Controls

No recommendations were noted in our review of application controls for IPERS' process to compare and convert benefit payrolls from the Legacy System to the I-Que System.

Report of Recommendations to the Iowa Public Employees' Retirement System

May 16, 2011 through June 16, 2011

Staff:

Questions or requests for further assistance should be directed to:

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Other individuals who participated on this review include:

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