



**OFFICE OF AUDITOR OF STATE
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NEWS RELEASE

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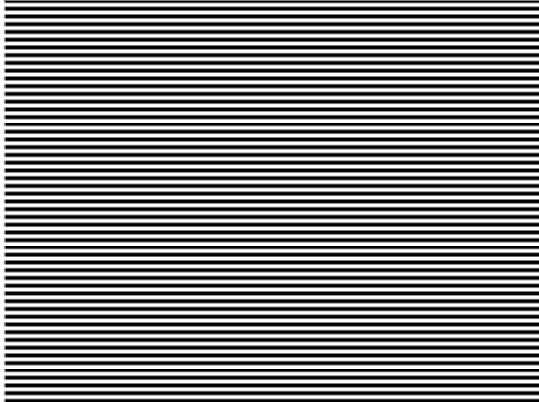
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Auditor of State David A. Vaudt today released a report on a review of selected general and application controls over the Iowa Public Employees' Retirement System (IPERS) I-Que Pension Administration System for the period March 24, 2009 through April 22, 2009.

Vaudt recommended IPERS develop procedures to monitor the receivables balances of employer accounts and strengthen password controls for the Employer Self-Service module of I-Que.

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/reports.htm>.

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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**

MARCH 24, 2009 to APRIL 22, 2009

Office of
**AUDITOR
OF STATE**

State Capitol Building • Des Moines, Iowa



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July 20, 2009

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, 2009, we have conducted an information technology review of selected general and application controls for the period March 24, 2009 through April 22, 2009. 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 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.

IPERS' responses to the findings identified in our review 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 Chester J. Culver, Governor
Director, Department of Management
Glen Dickinson, Director, Legislative Services Agency

March 24, 2009 through April 22, 2009

I-Que Benefits Administration System 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. 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 2010 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 modules dealing with employer reporting and employee and member demographics which were rolled out during phase I of I-Que.

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 March 24 through April 22, 2009. Specifically, we reviewed authentication and authorization controls, input and output controls for member and employer demographics, wage reporting and adjustments. In addition, we reviewed the processes IPERS used to map, cleanse and migrate data from the legacy system to the new 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.

March 24, 2009 through April 22, 2009

General Controls

- (1) **Password Controls** – User ID's and passwords identify and authenticate users in controlling access to system resources. Passwords, however, are not conclusive identities of specific individuals since they may be guessed, copied, overheard or recorded and played back. Typical controls for protecting information resources include the use of strong passwords which are at least eight characters in length, include a combination of alpha, numeric and special characters, are changed every 60 to 90 days, are not allowed to be reused and are locked out after a limited number of consecutive unsuccessful attempts. Passwords for the I-Que system include several of these control features, but other control features are not present.

Recommendation – IPERS should implement security features to strengthen password controls.

Response – IPERS has established I-Que specifications based on business rules that require the use of strong passwords. For example, those rules require that passwords be at least eight characters in length, including alpha, numeric and special characters, are required to be changed every 90 days, do not allow reuse with minor changes, lock out users after three consecutive failed attempts, and allow the ability to lock specific passwords at any time. The I-Que system has been developed using these specifications and business rules. However, we are aware, as you have identified, that some of these control features are not currently functioning properly in the I-Que system. We are in the process of correcting these issues and testing the system to ensure proper operation per the specifications. This component of the I-Que system will continue to be under construction and not fully settled until the system is fully in production later in FY2010.

Conclusion – Response accepted.

Application Controls

- (2) **Monitoring of Employer Account Balances** – Employers submit monthly wage reports to IPERS via the I-Que system. The contributions owed to IPERS for the employer and employee share of the retirement benefit are also due monthly. The payment is submitted from employers through ACH or by check. When payment is received, it is entered into the employer account and a balance due is calculated by the system. Each month, the employer receives a statement showing all transactions for the prior month and whether a balance exists on the account. The monthly statement also shows a due date for any debit balances and the rate at which interest will be accrued on past due balances.

IPERS does not have procedures in place to monitor monthly balances on employer accounts to facilitate resolution of excessive debit balances.

Recommendation – IPERS should develop procedures for the monitoring and resolution of employer account balances.

Response – IPERS agrees that it is important to monitor employer account balances with an emphasis on any past due balances. It is possible today in the I-Que system for IPERS staff to individually examine any particular employer account balance to identify any past due balances. We intend to develop and implement additional procedures to automatically monitor and report on the size and duration of employer past due account balances. Business rules will be developed to set thresholds defining when such past due balances may be considered “excessive” and trigger action by IPERS. Such action will likely start with the IPERS Employer Relations Bureau contacting the employer and may escalate to include the involvement of IPERS' pension attorneys in the process.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Public Employees' Retirement System

March 24, 2009 through April 22, 2009

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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Michael R. Field, Staff Auditor
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