

Assurance Report

2201F LASERS Required Minimum Distribution (RMD) Testing

May 6, 2022

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The LASERS Audit Committee

EXECUTIVE SUMMARY

This project included a review of the RMDs processed by LASERS for tax year 2021. The following observations were noted and are detailed below:

- RMD not issued prior to rollover distribution in 12 instances.
- Rollover distributions should be excluded from the calculation that determines whether an annual RMD amount has been met.
- RMD process should be updated to ensure that RMD payments are issued in the year of a retiree's death.

BACKGROUND

This was a planned engagement on the fiscal year end (FYE) 2022 Audit Plan. The fieldwork for this engagement was completed on April 13, 2022.

The Fiscal Division processes RMDs for retirees and beneficiaries of retirees who participated in Deferred Retirement Option Plan (DROP) or took an Initial Benefit Option (IBO), prior to the establishment of the Self-Directed Plan (SDP). LASERS third party administrator, Empower Retirement, processes RMDs for retirees and beneficiaries that have a SDP account.

The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 increased the RMD age from 70 ½ to 72 for individuals with dates of birth on or after July 1, 1949. It also mandated that the entire account be distributed within 10 years after a member's death to beneficiaries who are not an eligible designated beneficiary and annual RMD payments are not required during the 10 year period. Regulations related to the SECURE Act are not yet final; therefore, additional clarification or changes may occur in the

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future. However, according to LASERS tax counsel, the mandates mentioned above are currently fully applicable to LASERS and Fiscal is working to implement the necessary changes to ensure compliance with the Internal Revenue Code.

SCOPE, OBJECTIVES, AND METHODOLOGY

The scope of this engagement was to review records for individuals that were subject to RMDs during the 2021 tax year for non-SDP accounts managed by LASERS.

The primary objective of this engagement was to determine if LASERS processes RMDs in accordance with applicable laws and procedures.

Procedures used to complete this engagement included:

- Reviewing applicable laws and procedures.
- Using Audit Command Language (ACL) to test and analyze LASERS data.
- Conducting other inquiries considered necessary to achieve engagement objectives.

This engagement was conducted in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and the policies and procedures of the Audit Services Division.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. RMD NOT ISSUED PRIOR TO ROLLOVER DISTRIBUTION IN 12 INSTANCES

OBSERVATION

A RMD was not issued prior to processing a rollover distribution in 12 instances (5 retirees and 7 beneficiaries). According to IRS Publication 590-B, RMD payments that must be distributed during a particular year are not normally eligible for rollover treatment.

Prior to processing a rollover withdrawal request of DROP/IBO funds, LASERS process is to manually determine if the payee should receive a RMD and if so, calculate and issue the RMD payment. This process did not occur in these 12 instances.

RECOMMENDATION

Fiscal should review their processes related to rollover distributions and implement controls to help ensure, where applicable, that a RMD is issued prior to processing the rollover request.

DIVISION RESPONSE

Fiscal agrees with this recommendation and has assigned a medium priority. Fiscal has updated procedures to check that the member's RMD has been taken prior to issuing the rollover. The procedure change was implemented towards the end of last year. The priority for this item has been set as medium.

AUDIT COMMENT

This recommendation will remain open and reevaluated for closure during the 2022 RMD testing process to help verify that the procedure updates will address the observation noted.

2. ROLLOVER DISTRIBUTIONS SHOULD BE EXCLUDED FROM THE CALCULATION THAT DETERMINES WHETHER AN ANNUAL RMD AMOUNT HAS BEEN MET

OBSERVATION

According to IRS Publication 590-B, RMD payments that must be distributed during a particular year are not normally eligible for rollover treatment. Therefore, rollover distributions should be excluded from the calculation that determines whether an annual RMD amount has been met.

During this review, one instance was identified where a rollover distribution was included in the calculation to determine the remaining amount required to be distributed prior to the December 31, 2021 deadline. This caused an incorrect determination that the RMD amount was met and no additional funds were required to be distributed. Upon being notified about this exception by Audit Services, Fiscal manually processed the RMD payment prior to December 31st deadline.

RECOMMENDATION

Fiscal should make the necessary changes to ensure rollover payment types are excluded from the calculation performed that determines whether the annual RMD amount has been met.

DIVISION RESPONSE

Fiscal agrees with the recommendation. TFS Bug 93215 has been entered to correct this and IT resources are currently working on the bug. The priority for this item has been set as medium with a target completion date of September 30, 2022.

3. RMD PROCESS SHOULD BE UPDATED TO ENSURE THAT RMD PAYMENTS ARE ISSUED IN THE YEAR OF A RETIREE'S DEATH

OBSERVATION

During this review, Audit Services identified three individuals that did not satisfy RMD requirements in the year of their death. Questions arose regarding what was required in a year where a retiree is due an RMD and does not satisfy the requirement before their death.

According to information received from LASERS tax counsel, in the year that a DROP/IBO retiree becomes deceased, a RMD should be calculated as if they had lived for the entire year. Normally, a beneficiary is responsible for receiving the RMD in the year of a DROP/IBO retiree's death (if the retiree died on or after their required beginning date); however, there are situations that exist where a beneficiary is unable to be contacted or are unresponsive to correspondence that LASERS sends. In these situations, the RMD should be issued to the estate of the deceased retiree.

RECOMMENDATION

Fiscal should update the RMD process to ensure that RMD payments are issued to the appropriate beneficiary or deceased retiree's estate in the year of a retiree's death (provided that the retiree died on or after their required beginning date).

DIVISION RESPONSE

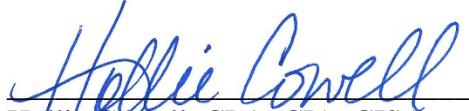
Fiscal agrees with this recommendation. Procedures have been updated to show that in the year that a DROP/IBO retiree becomes deceased, a RMD will be calculated as if they lived for the entire year. Also in situations where a beneficiary has been unable to be contacted or is unresponsive to correspondence that the RMD will be issued to the estate of the deceased retiree.

AUDIT COMMENT

This recommendation will remain open and reevaluated for closure during the 2022 RMD testing process to help verify that the procedure updates will address the observation noted.

FOLLOW-UP

A follow-up to this engagement will not be scheduled at this time. Audit Services will maintain this information on a tracking report. These items will be tracked until they are closed.


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