

Assurance Report

2201E Empower IRS Form 1099-R Testing

June 8, 2022

Cindy Rougeou, LASERS Executive Director
The LASERS Audit Committee

EXECUTIVE SUMMARY

This project included a review of the 1099-R forms issued by Empower for the 2020 tax year. The 1099-R forms were mailed to benefit recipients prior to the January 31st deadline. One observation was noted related to incorrect distribution codes that were assigned to 1099-R forms for five public safety plan retirees.

BACKGROUND

This was a planned engagement on the fiscal year end (FYE) 2022 Audit Plan. The fieldwork for this engagement was completed on June 8, 2022.

The Internal Revenue Service (IRS) requires that 1099-R forms be reported annually for benefit and refund recipients. The Fiscal Division processes these forms for all benefit recipients of LASERS and submits an electronic data file to the IRS. Empower Retirement processes 1099-R form for LASERS benefit recipients with self-directed plan accounts.

SCOPE, OBJECTIVES, AND METHODOLOGY

The scope of this engagement included a review of Empower 1099-R data for the 2020 tax year.

The primary objective of this engagement was to determine if Empower processes 1099-R forms in accordance with applicable laws and procedures.

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Procedures used to complete this engagement included:

- Performing data testing using Audit Command Language (ACL).
- Researching IRS 1099-R instructions and other relevant publications and statutes as necessary.
- 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.

OBSERVATION, RECOMMENDATION, AND RESPONSE

1. INCORRECT DISTRIBUTION CODES WERE ASSIGNED TO 1099-R FORMS FOR FIVE PUBLIC SAFETY PLAN RETIREES

OBSERVATION

Incorrect distribution codes were assigned to 1099-R forms for five public safety plan retirees. Under the Pension Protection Act of 2006, there is an exception to the early distribution and additional 10 percent tax that is granted to public safety employees. The exception applies if separation from service occurred in or after the year the employee reached age 50. If the exception is not correctly applied, there can be tax consequences for the retiree.

In the five instances identified:

- Four 1099-R forms issued to retirees of a public safety plan were incorrectly assigned a distribution code of 1, signifying an early distribution. The four participants identified were all age 50 or greater when they separated from service. Empower has issued corrected 1099-R forms for these individuals.
- One 1099-R form issued to a retiree of a public safety plan was incorrectly assigned a distribution code of 2, signifying an early distribution with an exception. The participant identified had not yet met age 50 when they separated from service. Empower has issued a corrected 1099-R forms for this individual.

LASERS provides Empower with dates of birth, termination dates, and an indicator to communicate if a retiree retired from a public safety plan for all SDP participants.

RECOMMENDATION

Empower should utilize the information that LASERS provides to programmatically determine the appropriate distribution code for public safety plan retirees.

EMPOWER'S RESPONSE

Empower agrees with this recommendation. Empower is in the process of building the system coding to read the Public Safety Officer Indicator that is being sent on the LASERS demographics file. This code will be inserted into the participant accounts so that when a cash distribution (payment to self) is processed the system will assign the appropriate tax type code of 2 to be reported on the 1099-R form. The priority for this item has been set as high with a target completion date of October 31, 2022.

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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