IRS Audit Initiative –
Tools to Prepare for an Audit
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Employee Plan Examination Process

1. Your retirement plan is selected for audit
2. Letter sent requesting review of plan records and documents
3. Appointment date set between Employer/POA or Authorized Representative and Internal Revenue Service Agent
4. IRS Agentconducts on-site audit of plan
5. Is additional information needed?
   - No
     - Are there any issues requiring change?
       - No
         - CASE CLOSED
       - Yes
         - Employer mails additional information to agent or agent conducts subsequent visit
   - Yes
     - TAX CHANGES (Potential income or excise tax)
     - or
     - CORRECTION PROGRAMS (Employee Plans Compliance Resolution System)
     - or
     - UNAGREED CASE/REVOCATION (Proposed revocation or nonqualification letter issued)
Resource – Examination Guide

www.irs.gov/retirement main page -

Examinations and Enforcement
Audit guide, compliance check letters and other programs

EP Examination Process Guide
In response to the results of the Customer Satisfaction Survey, 70% of customers through the examination process. The guide contains resources.

Eleven sections of materials to assist you through the audit process
Your retirement plan is selected for audit

- Examination Selection Methodologies
  - Risk Based Targeted (RBT) Projects
    - Industry & Plan Type/Market Segment specific examinations
  - Learn Educate Self-Correct Enforce (LESE) Projects
    - Small Projects Based on judgment sampling
  - Referrals
  - Employee Plan Team Audit (EPTA)
    - Large Case Audit Selection Criteria
  - Promoter Investigations/Abusive Transactions
• Why us?
  – Random selections
    • Including Compliance Unit (EPCU)
  – Joint examinations with others
    • Other IRS or TEGE functions
    • DOL
• Initial contact
  – Generally by telephone
  – Follow-up with appointment letter or preplanning meeting
• Helpful links
  – Exam Process Guide – Section 3 – Initiation of an Examination

• Telephone Checklist
  A sample telephone checklist with probable topics when initial contact is by telephone.
• Includes a detailed listing of items required to have available for the agent for review
• Having all items and having them organized results in agent able to conduct audit more efficiency and quickly
• May request some items for review prior to the initial appointment
• Preparing For the Audit
  – Inform those managers/employees that will be involved in the audit
    • Payroll
    • Human Resources
  – Contact banks, vendors, etc.
    • Make them aware records may be requested
• Preparing For the Audit
  – Have readily available
    • Plan document, including amendments
    • Determination letter
    • Test results (top-heavy, coverage, etc.)
  – Be prepared to identify/explain
    • Plan terms and operation
    • Internal administrative processes (internal controls)
    • Plan errors resolved through correction programs
• Helpful Exam Process Guide Links
  – Section 3 – Initiation of an Examination
    • Letter 1346 – Initial Contact letter
    • Attachments to initial contact letter
    • Publication 1-EP – Understanding the Employee Plan Examination Process
    • Focused Examinations
• Helpful Exam Process Guide Links
  – Section 3 – Initiation of an Examination

• Place and Time of Conducting an Audit

An article from the Retirement News for Employers which clarifies the EP position of conducting audits at the taxpayer's place of business.
• Tips For a Smooth & Efficient Audit
  – Open communication with IRS
    • If items on information request do not seem to be best approach to obtain results, talk to the auditor
  – Influence on length of audit
    • Turnaround time on request for further information
    • Clear communication between IRS and employer
• Helpful Exam Process Guide Links
  – Section 3 – Initiation of an Examination

• Audit Efficiency Guide
  This guide is intended to help establish a reasonable working relationship between a revenue agent and a plan sponsor so the audit can proceed as efficiently as possible and so both will know what to expect during the audit when an employee benefit plan has been selected for audit. This guide outlines how both parties will work with each other during the course of the audit.
• Helpful Exam Process Guide Links

- **Section 4 - Communications During Examination**
  This section of the Guide provides a general explanation of the techniques and procedures used during an EP examination to effectively communicate with taxpayers and their representatives. There are also examples of communications involving compliance issues that may occur during examinations.
• Tips For a Smooth & Efficient Audit
  – Open communication with IRS
    • If items on information request does not seem to be best approach to obtain results, talk to the auditor
  – Influence on length of audit
    • Turnaround time on request for further information
    • Clear communication between IRS and employer
Section 6 - Resolution of Issues and Closing the Examination

Section 7 - Appeals
## The EPCRS Menu

### What’s Your Choice?

The impact of non-compliance left unchecked can be costly.

Preventive Maintenance – Fix Mistakes Immediately!!

### Audit CAP

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<tr>
<th>Cost of Correction</th>
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<td>![Cost Icon]</td>
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### Voluntary Correction

<table>
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<th>IRS Fees</th>
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### Self-Correction

<table>
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<th>Time Involved</th>
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### Result

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**ATTENTION: PLAN SPONSORS!**

EMPLOYEE PLANS COMPLIANCE RESOLUTION SYSTEM

 corrected.
Other Exam Process Guide Sections

• Overview
• Compliance Monitoring Procedures
• Audit Guidelines
• Customer Education and Outreach
• Participant Rights
• Puerto Rico Compliance
How Can Plan Sponsors Improve Compliance?

It is crucial to have good internal controls!!
How Can Plan Sponsors Improve Compliance?

Have You Had Your Yearly Check-Up?

1. Has your plan document been updated within the past few years?  
   Yes  No

   If your plan has not been updated to reflect recent law changes, the plan needs to be revised.
   (More)

2. Are the plan’s operations based on the terms of the plan document?  
   Yes  No

   Failure to follow the terms of the plan is a common problem encountered on audit.
   (More)
Fix-It Guides – Common Problems, Real Solutions

---Trends---

<table>
<thead>
<tr>
<th>Potential Mistake</th>
<th>How to Find the Mistake</th>
<th>How to Fix the Mistake</th>
<th>How to Avoid the Mistake</th>
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<tr>
<td>Has your plan document been updated within the past few years to reflect recent law changes? (More)</td>
<td>Review annual cumulative list published close to year-end to see if plan made all required law changes (for example, Notice 2009-98). (More)</td>
<td>EPCRS VCP: Streamlined application available. See Appendix F and schedules 1 and 2. Adopt amendments for missed law changes. (More)</td>
<td>VCP Audit CAP (More) Resort to a calendar (tickler) that notes when you must complete amendments. Review your plan document annually. Maintain regular contact with the company that sold you the plan. (More)</td>
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**SIMPLE IRA With Video!**

**SARSEP Coming Soon!**

**401(k)**

**SEP**
## Employee Plans Compliance Unit (EPCU)

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<th>Compliance Check</th>
<th>Audit</th>
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<tr>
<td>• EPCU contact</td>
<td>• Revenue Agent visit</td>
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<tr>
<td>• <strong>NOT</strong> an audit/investigation</td>
<td>• Determine <strong>tax liability</strong></td>
</tr>
<tr>
<td>• Verify <strong>return information</strong></td>
<td>• Verify <strong>compliance</strong> in form and operation</td>
</tr>
<tr>
<td>• Books/Records <strong>not</strong> inspected</td>
<td>• <strong>Inspect</strong> books &amp; records</td>
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<tr>
<td>• Voluntary correction (VCP) available</td>
<td>• No VCP available upon notice of audit receipt</td>
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Compliance Check                  Audit

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**IRS - Employee Plans Examinations**
Sample of Current EPCU Compliance Check Projects

- Missing Pension Feature Code Project
- One Participant DB Schedule SB Project
- Final Return Project
- Partial Termination Project
- Partnership Investment Project
Common Examination Errors

All Plans

• Non-Amenders

• Definition of “Compensation”
  – Plan vs. operational definition not consistent

• Excluding eligible employees / Including ineligible employees

• Plan loans
  – Sponsor: failure to withhold loan payments
Read the Plan!
How Can I Find Out More?
www.irs.gov/Retirement-Plans

Topics for Retirement Plans
- IRAs
- Types of Retirement Plans
- Required Minimum Distributions
- Retirement Plans FAQs
- Published Guidance
- Forms & Publications
- Correcting Plan Errors
- Newsletters
- More Topics
- Retirement Plans Home

Employee Plans News
Retirement News for Employers
Governmental Plans Updates