How to Prepare for an IRS Audit

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Before You Are Notified of an Audit

- **Review your plan document**
  - Do you know where your plan document and all amendments are located?
  - Does your administration match your plan document?
  - Does the definition of eligible earnings match your payroll system?
  - Do your HR/Payroll employees who handle day-to-day administration understand plan provisions?
Before You Are Notified of an Audit

- Review governance around your plan
  - Do you know where minutes and/or resolutions for committee actions are located?
  - Do you have the appropriate approvals for plan changes?
  - Have plan amendments been executed timely?
  - Are Investment Committee/Board Committee Charters current, if applicable?
  - Do you keep your committees apprised of issues, changes, trends related to your plan?
Before You Are Notified of an Audit (cont.)

• Review process for participant changes
  • Do you have controls to ensure the accuracy & timeliness of participant changes?
  • Are contributions & loan payments sent to the recordkeeper in a timely manner? Do you have supporting documentation for each pay period?
Before You Are Notified of an Audit (cont.)

• **Know your Recordkeeper**
  - Have you recently reviewed processes and administration of recordkeeper?
  - Is your recordkeeper compliance focused with good internal controls?
  - Do you have copies of all testing reports from your recordkeeper and have you corrected any failed tests?
  - Do you meet with your recordkeeper periodically to review activity, discuss trends, etc?
Before You Are Notified of an Audit (cont.)

- **Review ERISA Audits** (if applicable)
  - Are your ERISA audits thorough?
  - Have you addressed any issues or concerns from these audits?

- **Engage the Right Experts**
  - Do you use an external advisor for advice on investments, participant education, plan options, etc?
  - Do you consult ERISA counsel as needed?
  - Do you & your committee review the quality and level of services provided by your external experts periodically?
When You Are Notified of an Audit

• Don’t Panic!
After You Are Notified of an Audit

- Hold a planning meeting with key administrators and advisors (your “Audit Team”), such as:
  - HR administration team
  - Tax department
  - Payroll
  - Recordkeeper
  - ERISA counsel
  - 401(k) advisor
After You Are Notified of an Audit

- **At the planning meeting:**
  - Discuss each information request from the IRS and how to obtain the information
  - Make assignments so it is clear who is responsible for each request
  - Create a timeline for the initial response
  - Contact the IRS if you don’t understand a request
After You Are Notified of an Audit (cont.)

- **Key documents to be mailed in advance of onsite audit:**
  - Employee census file
  - Plan documents, amendments & 5500s
  - Tax deduction reconciliation - tax and/or payroll areas may need to assist with tax deduction reconciliation

**NOTE:** Hold a follow-up meeting with your “Audit Team” to review and reconcile documents carefully before delivering
After You Are Notified of an Audit (cont.)

- Key documents for **onsite audit:**
  - Employee records & census reports
  - *Reconciliation of W2 earnings and 401(k) eligible earnings for sample employees
  - Original plan documents, trust documents & amendments
  - SPDs, SMMs and SARs
  - Trustee/recordkeeper statements
  - Plan testing results for coverage and non-discrimination

  * Explain each category of W2 earnings not included in 401(k) earnings
At the Onsite Audit

• **Key points for the onsite audit:**
  • Meet with the auditor first thing to review key aspects and administration of your plan
  • Provide auditor with all information requested in an organized manner (organize in binder with numbers to match data request)
  • Discuss oversight/governance of plan with auditor
    • Internal HR/Payroll controls
    • Role of internal Investment Committee
    • Role of Board Committee
    • Involvement of advisor
    • Use of ERISA counsel
    • Role of recordkeeper
  • Make sure all key employees who work with the plan are available for questions or to provide additional data
• Get your ducks in a row now!
Key Steps Once You are Notified of an Audit:

- Involve all key stakeholders and advisors
- Provide thorough reconciliations
- Ensure data and documents are organized and easy to follow
- Prepare, Prepare, Prepare!
Questions?