



IRS Audit Initiative – Tools to Prepare for an Audit

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EP Phone Forum – August 29, 2013



Filing Payments Refunds Credits & De

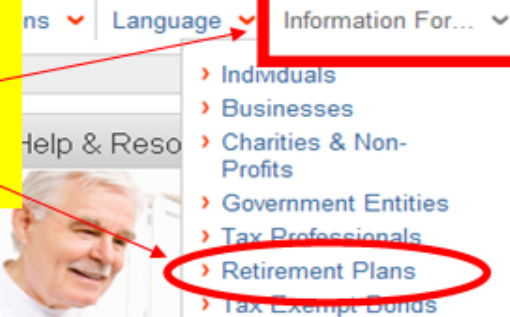
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[irs.gov/retirement](https://www.irs.gov/retirement)

Finding our page:

-Click on Information For

-Click on Retirement Plans



Retirement Plans

Benefit Practitioner

Plan Participant, Employee

Plan Sponsor

Topics for Retirement Plans

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

Tax Information for Retirement Plans Community



Help with Choosing a Retirement Plan

Web guide to help you compare plans

File a Retirement Plan Return

Forms 5500, 5500-SF, 5330, 5558 and 8955-SSA

Form 2848 - More Changes

Use the March 2012 version to designate a representative for retirement plan issues.

Retirement Plans Phone Forums

Check out upcoming phone forums

Fix-It Guides

Find, Fix and avoid common mistakes in plans

Cost-of-Living Adjustments (COLAs)

Limits on contributions and benefits

Examinations and Enforcement

Audit guide, compliance check letters and other programs



Filing Payments Refunds Credits & De

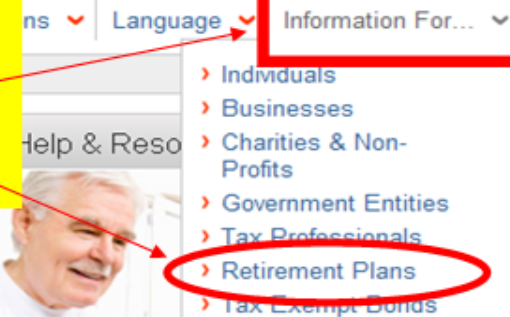
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Stay informed;
choose your
interest...

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- Correcting Plan Errors
- Newsletters
- More Topics

Newsletters

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[Employee Plans News](#)

Geared toward retirement plan practitioners - attorneys, accountants, actuaries, and others - this newsletter presents information about retirement plans. View our current edition, browse the newsletter archive, or subscribe to future editions.

[Retirement News for Employers](#)

For employers, business owners and their tax advisors – the latest on retirement plan rules, forms, plain language publications from IRS and other federal agencies. View current or prior editions.

[Governmental Plans Updates](#)

Recent developments for governmental plans.

Browse the newsletter [archive](#) or [subscribe](#) to future editions.



Retirement Plan Overview

- U.S. retirement assets: **\$19.5 trillion**
 - DC plans: \$5.1 trillion
 - 401(k): \$3.6 trillion
 - IRAs: \$5.4 trillion
- Retirement savings = 36% of all financial household assets

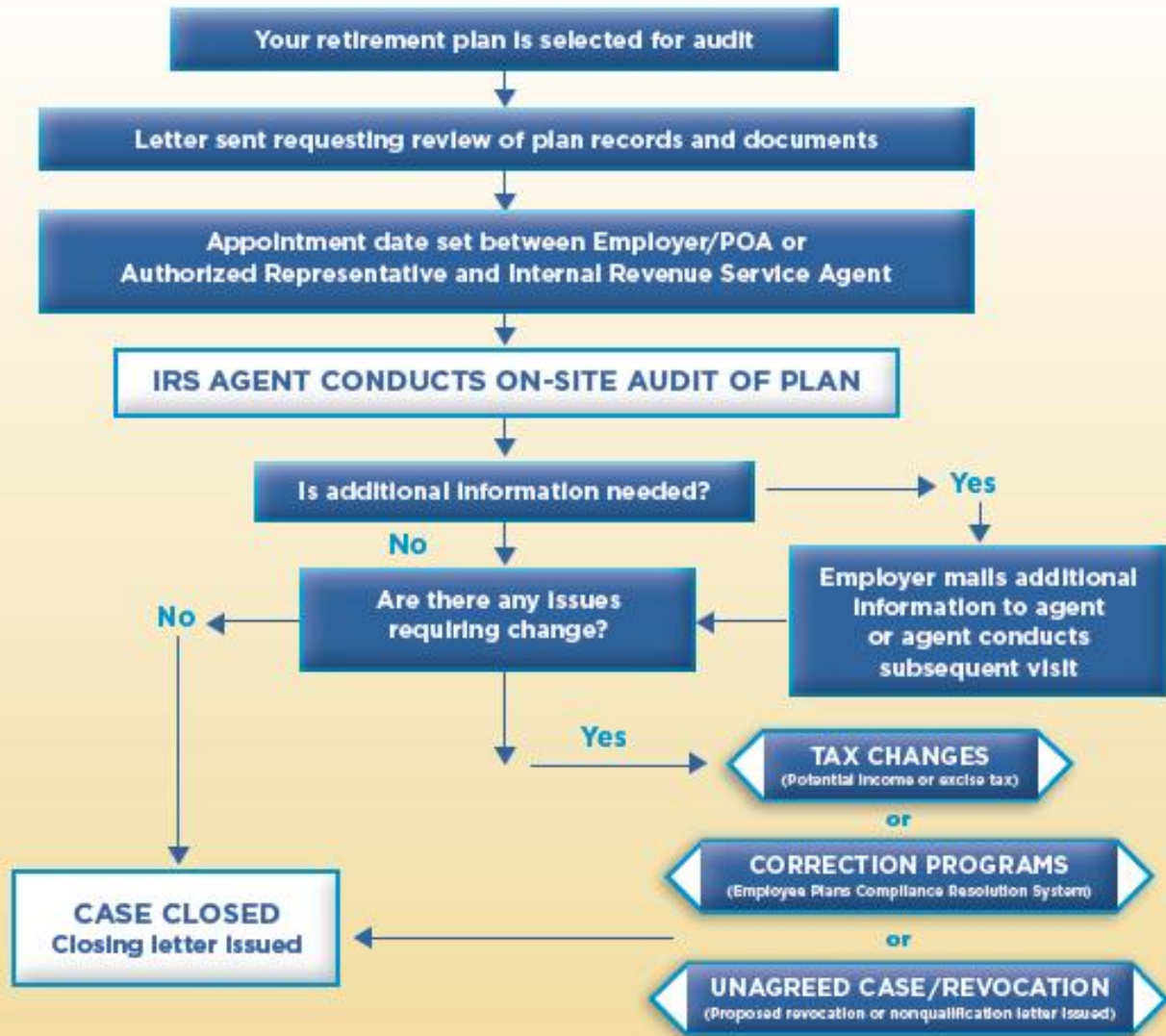


Potential EP Audit Triggers

- Large number of separated participants not 100% vested
- High percentage of assets classified as “other”
- Significant distributions on income statements
- Top-heavy 401(k) plans
- Top-heavy plans for self-employed individuals



Employee Plan Examination Process



Publication 4324 (Rev. 11-2011) Catalog Number 28453H
Department of the Treasury Internal Revenue Service
www.irs.gov

Publication 4324



Resource – Examination Guide

- EP main page – www.irs.gov/retirement



[Examinations and Enforcement](#)

Audit guide, compliance check letters and other programs



[EP Examination Process Guide](#)

To help customers through the examination process



Eleven sections of materials to assist you
through the audit process



Your retirement plan is selected for audit

- Examination selection methodologies
 - Risk-based compliance
 - 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



Your retirement plan is selected for audit

- Why us?
 - Random selections
 - Including EPCU
 - Joint examinations
 - Other IRS functions
 - DOL
- Initial contact
 - Generally by telephone
 - Follow-up with appointment letter or preplanning meeting



Your retirement plan is selected for audit

- 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



Letter sent requesting review of plan records and documents

- 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



Letter sent requesting review of plan records and documents

- 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



Letter sent requesting review of plan records and documents

- 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



Letter sent requesting review of plan records and documents

- 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



Appointment date set between Employer/POA or Authorized Representative and IRS Agent

- 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* that clarifies the EP position of conducting audits at the taxpayer's place of business



IRS AGENT CONDUCTS ON-SITE AUDIT OF PLAN

- 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



Tips for a Smooth & Efficient Audit

- Allocate time for an opening interview between the agent and the sponsor/practitioner
- All plan documents and requested records should be readily available
- Form 5500 filings should be available
- Efficiently organize all requested materials



Tips for a Smooth & Efficient Audit

- Be prepared to:
 - Provide all applicable test results with supporting details
 - Coverage
 - ADP/ACP
 - Top-heavy
 - Explain:
 - Terms of the plan
 - Operation of the plan



Tips for a Smooth & Efficient Audit

- Be prepared to explain administrative processes
 - Practices and procedures
 - Internal controls
- Be prepared to address plan errors
 - Resolved through Self-Correction and VCP
 - Unresolved errors
- Suggestions to correct



Previously Discovered Failures

- For the year at issue, what if there has been:
 - a VCP?
 - a self-correction that:
 - met the EPCRS rules?
 - does not meet the EPCRS rules?



IRS AGENT CONDUCTS ON-SITE AUDIT OF PLAN

- Exam Process Guide links
 - Section 3 – Initiation of an Examination

Audit Efficiency Guide

Helps establish a reasonable working relationship between revenue agent and plan sponsor so audit can proceed efficiently and both will know what to expect during the audit when a plan has been selected for audit. This guide also outlines how both parties will work with each other during the course of the audit



IRS AGENT CONDUCTS ON-SITE AUDIT OF PLAN

- Exam Process Guide links

Section 4 – Communications During Exam

Provides general explanation of techniques and procedures used during an EP examination to effectively communicate with taxpayers and representatives. There are also **examples of communications** involving compliance issues that may occur during examinations



EPTA / Large Case Considerations

- While the issues are the same (i.e., eligibility, coverage, etc.) the manner in which they are addressed is different
- The following slides will highlight some of these differences



Criteria for an EPTA Case

- Maintained by large entities with 2,500 or more participants in the aggregate
- Various criteria used to select
 - EPTA case selection
 - Referrals
 - Media reports



Pre-Audit Analysis

- Internet research
- IDRS research
- Assignment of EP agents and specialists
 - TEGE field actuary
 - Field counsel
- Assessment of internal controls
- Selection of focused audit issues



Analysis of Records

- Large amounts of data in electronic format
- Use of computer audit specialist
- Stratification and sampling used extensively



Information Document Requests (IDRs)

- Requests for data issued through IDRs
- Data requested on an IDR is specific to an issue and to a plan
- IDRs are issued in a logical, sequential manner
 - No more than a few at a time so as not to overwhelm the Taxpayer



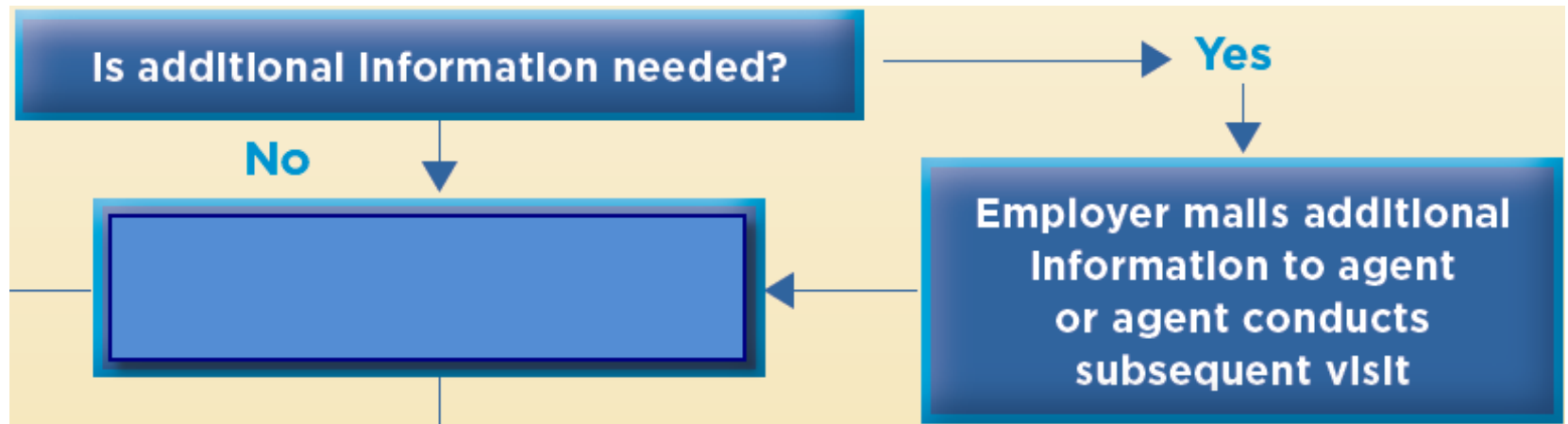
Coordination with LB&I

- Efforts coordinated when LB&I and EP are conducting an examination at the same time
- Typically follow LB&I protocol with respect to issuance of IDRs and Notice of Proposed Adjustment
- Assist LB&I with analysis of foreign and domestic pension expenses

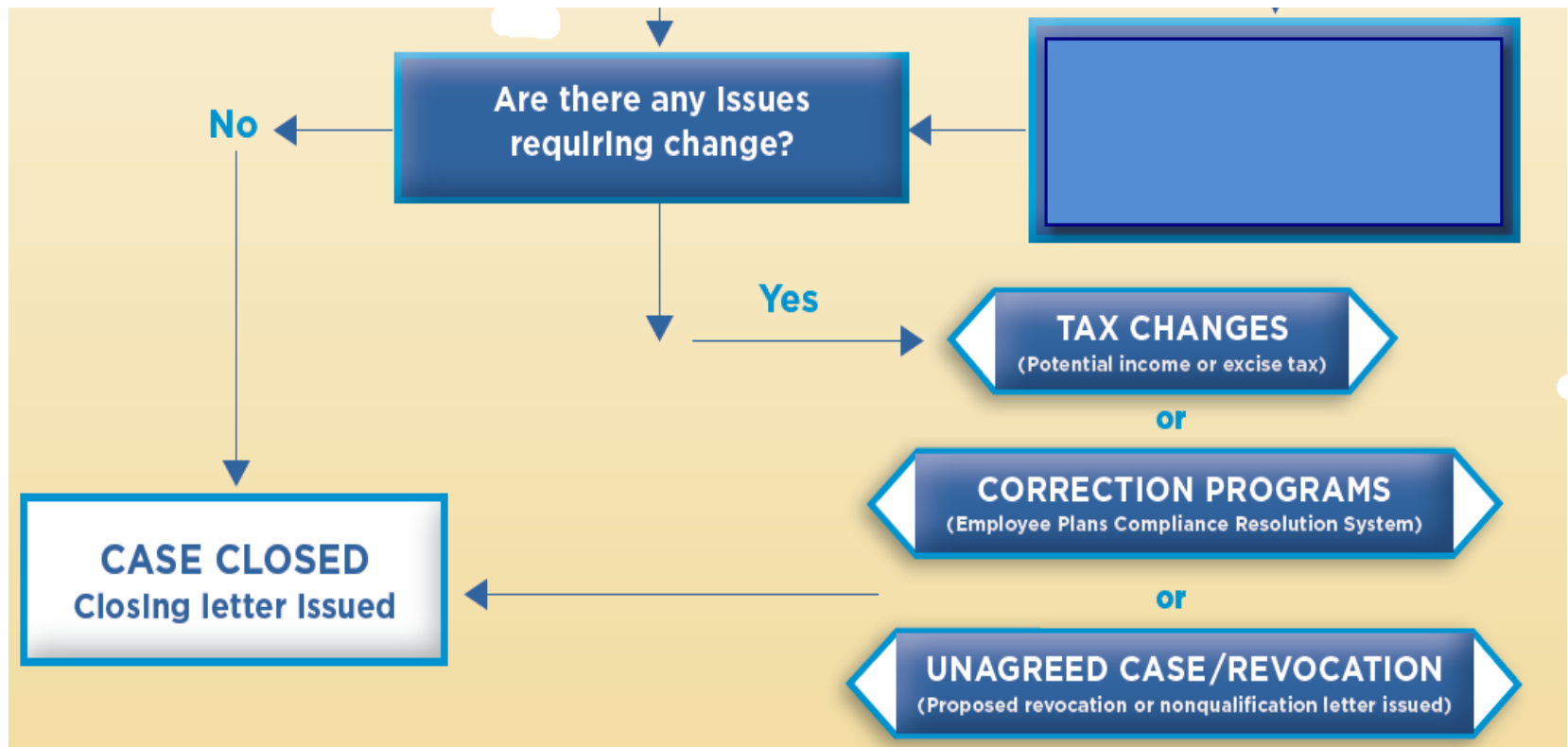


Use of Specialists

- TEGE Actuary
- TEGE Field Counsel
- Computer Audit Specialists (CAS)
- Engineers
- Financial Product Specialists



- 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

**ATTENTION:
PLAN
SPONSORS!**












**EMPLOYEE PLANS
COMPLIANCE RESOLUTION
SYSTEM**

The EPCRS Menu

What's Your Choice?

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

**Preventive Maintenance –
Fix Mistakes Immediately!!**

	Audit CAP	Voluntary Correction	Self- Correction
Cost of Correction			
IRS Fees			\$0
Time Involved			
Result			



Impact of New EPCRS Revenue Procedure 2013-12

At www.irs.gov/retirement, click on "Correcting Plan Errors"

Correcting Plan Errors

The [Employee Plans Compliance Resolution System](#) (EPCRS) offers three programs for correcting plan errors:

- [Self-Correction Program \(SCP\)](#)
- [Voluntary Correction Program \(VCP\)](#)
- [Audit Closing Agreement Program \(Audit CAP\)](#)

Find Plan Errors

Fix Plan Errors

Avoid Plan Errors

- [Tips to avoid common retirement plan errors](#)

What's New in EPCRS

- › Check the Status of Your Voluntary Correction Program Submission
- › 403(b) Plans With Operational Failures
- › Tips to Avoid Processing Delays with Your Voluntary Correction Program Submission



Rev. Proc. 2013-12 – Major Changes

- Expanded to cover correction of 403(b) plan document failures in light of regulations now requiring written plan documents for 403(b) plans
- IRS letter forwarding program to locate lost participants no longer for plan sponsors
- New forms added to streamline VCP
 - Forms 8950 and 8951
- Changes to appendices
- Miscellaneous



Impact of Rev. Proc. 2013-12 on Employee Plans Audits

FAQs

- What is the impact of the IRS Letter Forwarding Program being unavailable for use by plan sponsors?
- Under what circumstances is SCP available for plans during an EP audit?



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
- Hardship distributions



Other Exam Process Guide Sections

- Overview
- Compliance Monitoring Procedures
- Audit Guidelines
- Customer Education and Outreach
- Participant Rights
- International Issues Affecting Retirement Plans



Unresolved Issues

- What is the procedure when the parties cannot come to an agreement?
- What does it mean to ask for “Tech Advice?”
- What is the procedure for requesting an appeal of an audit finding?



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?

401(k)

403(b)

SEP

SIMPLE IRA

SARSEP

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

SIMPLE IRA

SARSEP

401(k)

SEP

NEW!

403(b)

Mistake	Find the Mistake	Fix the Mistake	Avoid the Mistake
1) You haven't updated your plan document within the past few years to reflect recent law changes. (More)	Review the annual cumulative list to see if the plan has all required law changes (see Notice 2012-76).	Adopt amendments for missed law changes. If you missed the deadline to adopt an amendment you may need to use the IRS correction program.	Use a calendar that notes when you must complete amendments. Review your plan document annually. Maintain regular contact with the company that sold you the plan.
2) You didn't base the plan operations on the terms of the plan document. Failure to follow plan terms is a very common mistake. (More)	Conduct an independent review of the plan document provisions compared to its operation.	Apply reasonable correction method that would place affected participants in the position they would've been in if there were no operational plan defects.	Develop a communication mechanism to make all relevant parties aware of changes on a timely and accurate basis (best practices). Perform a review at least annually to ensure that you are following plan terms.



Coming Soon: 401(k) Self-Audit QSAT Tool

- **Good News!** We added new internal control questions and repackaged the 401(k) Questionnaire as the QSAT (Questionnaire Self-Audit Tool)
- Scheduled to be released in 2013
- The QSAT will help plan sponsors find, fix and avoid costly mistakes

EP COMPLIANCE UNIT	COMPLIANCE CHECK	AUDIT
CONTACT	EPCU	Revenue Agent
AUDIT?	No	Yes – determine tax liability
VERIFY	Return information	Compliance in form and operation
INSPECT BOOKS AND RECORDS?	No	Yes
VOLUNTARY CORRECTION (VCP)?	Available	Not available (upon notice of audit receipt)



EPCU Main Page

[www.irs.gov/Retirement-Plans/Employee-Plans-Compliance-Unit-\(EPCU\)](http://www.irs.gov/Retirement-Plans/Employee-Plans-Compliance-Unit-(EPCU))

- Current projects
- Completed projects
 - Includes summary reports
- Approved upcoming projects
- More!

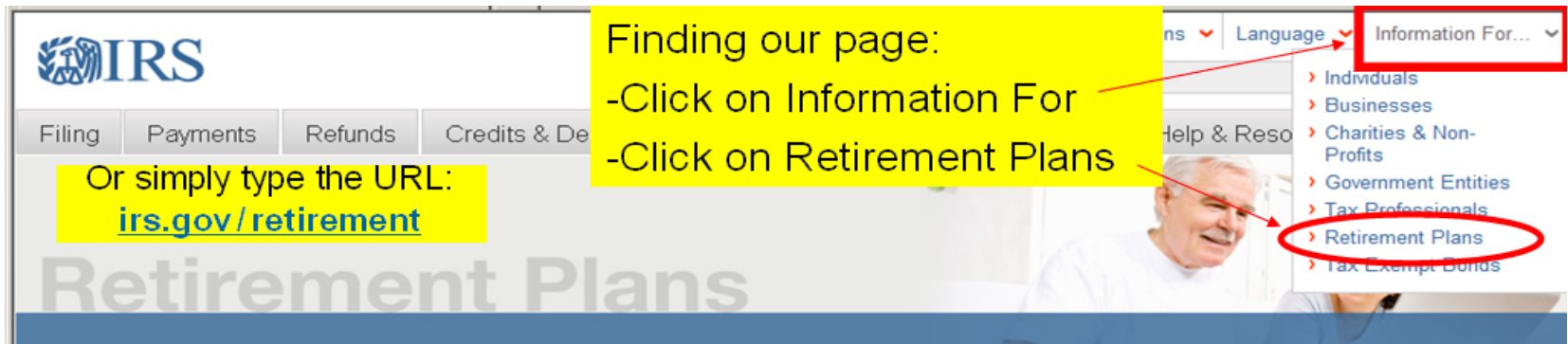


Read the Plan!





How Can I Find Out More?



Stay informed;
choose your
interest...

Topics for Retirement Plans

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

Newsletters

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For employers, business owners and their tax advisors – the latest on retirement plan rules, forms, plain language publications from IRS and other federal agencies. View current or prior editions.

[Governmental Plans Updates](#)

Recent developments for governmental plans.

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*Thank
you*