

## Don't Panic If You Receive a Benefit Audit Notice

**R**eceiving a notice that the IRS is auditing an employee benefit plan is news that no employer wants to receive. If your company does get such a notice, knowing what to expect and preparing for the audit itself are the best ways to help the process go as smoothly as possible. In one IRS newsletter, the agency's Director of Employer Plan Examinations advised plan sponsors of the audit process and gave readers a list of tips on how to best handle the situation.

An audit will generally be held at the employer's principal place of business. The audit notice lists the items that the IRS agent wants to examine. Prior to the audit, employers should review the list and consult with their tax and benefit advisers.

### The IRS Offers these "Top Ten Tips to Prepare for an Efficient Audit:"

1. Have readily available plan documents (including amendments), summary plan descriptions, etc. (include all prior versions requested); opinion letters and determination letters; any other requested records; and agreements with service providers. Have these documents efficiently organized.
2. Make sure appropriate individuals are available for the audit (trustee, representative with power of attorney, record keeper, actuary, employer personnel).
3. Be prepared to explain the terms of the plan.
4. Be ready to explain the operation of the plan. Have administrative forms (such as for salary deferrals, payment elections and spousal consent) and loan/hardship withdrawal documentation available.
5. Have any applicable testing results available (coverage, nondiscrimination, ADP/ACP, top heavy).
6. Be prepared to explain the plan's internal administrative processes, including practices and procedures and internal controls.
7. Make sure you can identify plan errors, including those resolved through self-correction and the Voluntary Correction Program (with proof of correction); and those errors that are unresolved, with suggestions on how to correct them.
8. Be prepared to provide information on related employers or entities. This would include controlled groups, affiliated service groups and qualified separate lines of business.
9. Consider using an annual self-audit as a verification tool.
10. Consult and use online IRS resources (see below).

### Audit Quality

According to federal law, employee benefit plans with at least 100 participants must be audited each year as part of the process of filing their annual Form 5500 Series report.



For these plans, one of the key duties of the administrator is to ensure that an independent auditor is hired to perform the examination. This helps ensure a plan's financial integrity and protect the plan assets. It also helps the administrator fulfill his or her legal responsibility of filing a complete and accurate plan report each year.

If regular, independent audits are performed, a benefit plan audit from the IRS shouldn't find any problems.

— From the American Institute of Certified Public Accountants

The IRS has a website dedicated to employee retirement plans, [www.irs.gov/ep](http://www.irs.gov/ep). It has tools to aid plan sponsors in preparing for an audit. In addition to the Top Ten Tips noted above, plan sponsors can find the *EP Examination Process Guide*, which explains the audit process from start to finish, including the roles of all parties involved in a plan audit. IRS Publication 4324 is a flowchart of the steps in an audit from the time a plan is selected for audit through the case's closure. Your tax pro can answer any questions.