



# AUDITS OF EMPLOYERS

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PRESENTED BY  
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**11TH TRIENNIAL NATIONAL RAIL EMPLOYER TRAINING SEMINAR**

US RAILROAD RETIREMENT BOARD HEADQUARTERS  
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# AGENDA

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- ❖ Audit and Compliance Section
  - Background & Primary Functions
  
- ❖ Employer Audits
  - Audit Objectives
  - Audit Process
  - Common Discrepancies
  - Tips For Success
  - Keep It Moving
  
- ❖ Confidentiality of Information
  
- ❖ RRB and IRS Relationship
  - Memo of Understanding
  - RRB Audit vs. IRS Audit



# AUDIT AND COMPLIANCE SECTION

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- ❖ Established April 1993
  
- ❖ RRB's Audit Authority
  - Railroad Retirement Act Section 7
  - Railroad Unemployment Insurance Act Section 12
  - Power to Issue Subpoenas
  
- ❖ Audit Universe



# PRIMARY FUNCTION

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The Audit and Compliance Section (ACS) is responsible for:

- ❖ Conducting audits of railroad employers





# EMPLOYER AUDITS

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# AUDIT OBJECTIVES

An employer audit has six objectives:

1. To reconcile creditable compensation reported to the RRB with taxable compensation reported to the IRS
2. To determine the accuracy of the creditable compensation and service
3. To reconcile RUIA compensation on Form DC-1 with the RUIA reported on Forms BA-3 and BA-4
4. To determine whether the railroad is making proper and timely contributions for employees covered under the RUIA
5. To ensure compliance with Sections 2(f) and 12(o) provisions of the RUIA
6. To identify potential coverage issues



# OVERVIEW OF AUDIT PROCESS

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- ❖ Audit Plan
  - Prepare audit plan
  - Submit to CFO for approval
  - Once approved – Copies are sent to the Board Members
  
- ❖ Employer Notification – via Telephone
  - Announce audit
  - Audit objectives
  - Audit scope
  - Discuss what records are needed and where they are located
  - Secured email messaging system
  - On-site visit



# OVERVIEW OF AUDIT PROCESS

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- ❖ Issuance of Audit Confirmation Letter
  - Information Document Request (IDR)
  - Employer questionnaire
  - Obtain as much of the information needed as possible prior to the on-site visit
  - Reduces time on-site
  - Begin reconciliations





# OVERVIEW OF AUDIT PROCESS

## ❖ On-Site Visit

- Conduct an entrance conference
- Gain an understanding of the payroll system and payroll records
- Obtain any outstanding IDR requests
- Discuss any preliminary audit findings
- Answer employer questions

## ❖ End of Fieldwork

- Conduct an exit conference
- Explain each audit finding and recommendation
- Strive to reach management agreement
- If employer agrees with the audit finding(s), obtain any adjusted reports
- If the employer disagrees with the audit finding(s) they are to provide a written explanation



# OVERVIEW OF AUDIT PROCESS

## ❖ Appeals Process

- Informal conference with the Director of Audit Affairs & Compliance
- Conference with the Chief Financial Officer
- If significant issues remain unresolved, ACS will involve the Office of General Counsel

## ❖ Draft Audit Report

- After the closing conference - ACS prepares a draft report
- Request employer's written reply to each finding and recommendation – 30 days to reply

## ❖ Final Audit Report

- Once reply to draft is received and reviewed – Final report is prepared
- The employer's written reply is included as an attachment
- A report is issued to the employer, the bureaus within the RRB, and to the IRS if there are any unresolved issues relating to the Railroad Retirement Tax Act (RRTA)



# COMMON DISCREPANCIES

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- ❖ Differences Between Creditable vs. Taxable Compensation
- ❖ Inaccurate Reporting of Third Party Sick Pay
- ❖ Untimely Reporting of Separations
- ❖ Untimely Reimbursement of RUIA Benefits
- ❖ Inaccurate Reporting of Pay for Time Loss



# TIPS FOR A SUCCESSFUL AUDIT

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- ❖ Read the initial and all subsequent IDRs:
  - Ask Questions - There is no such thing as a stupid question
  - Delegate items that are not your responsibility
  - Identify any items that are not applicable to your railroad
- ❖ Resolve audit findings during course of the audit





# KEEP THE AUDIT MOVING

- ❖ Keep the lines of communication open
- ❖ Answer questions in a timely manner
- ❖ Provide requested information in a timely manner
- ❖ Keep a log of the information you've submitted and the information you need to work on



# CONFIDENTIALITY OF INFORMATION

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- ❖ ACS protects the confidentiality of information received during the course of an audit.
- ❖ The RRB receives certain Form CT-1 information from the IRS. The non-disclosure provisions of the IRS Code (26 U.S.C. 6103) apply to RRB employees
- ❖ RRB regulations incorporate the Privacy Act of 1974, which includes rules on non-disclosure of information about individuals
- ❖ Other business information obtained from employers is protected from disclosure
- ❖ ACS uses a secured email messaging system





# RRB – IRS RELATIONSHIP

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# MEMORANDUM OF UNDERSTANDING

- ❖ In November 2009, the RRB and the IRS executed a Memorandum of Understanding (MOU)
- ❖ The agreement provides that the RRB will send the IRS any final audit reports that involve unresolved RRTA issues
- ❖ The IRS forwards copies of railroad employment tax audit results (6103 of the Internal Revenue Code) to the RRB
- ❖ The agreement also allows for:
  - the RRB to request the IRS to protect the statutes of limitations from expiring, and
  - RRB and IRS personnel to participate in audit training sessions, conferences and seminars





# RRB AUDIT VS. IRS AUDIT

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- ❖ While it may appear audits conducted by the RRB and IRS are redundant, the purpose of the respective audits is very different
  - RRB audits ensure compliance with Railroad Retirement and Railroad Unemployment Insurance benefit programs
  - IRS audits assess employment tax compliance



# RRB AUDIT VS. IRS AUDIT

- ❖ The primary purpose of the RRB audit is to check the accuracy of creditable service and compensation reports filed with the RRB
  - These reports include Forms BA-3, BA-4, BA-9 and BA-11 reports
- ❖ An RRB audit also ensures the accuracy of RUIA compensation and contributions, Forms DC-1 and that recoveries of benefits are paid under Section 2(f) and 12(o) of the Act
- ❖ The IRS RRTA audit is focused on the proper tax withholding, tax deposits, treatment of compensation as taxable or non-taxable, and treatment of individuals as employees or independent contractors



# SOURCES

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1. Railroad Retirement Act 45 U.S.C. Sections 231 et seq.
2. Railroad Unemployment Insurance Act 45 U.S.C. Sections 351 et seq.
3. RRB Regulations 20 C.F.R. parts 1 to 399
4. Employer Reporting Instructions
5. RRB Website ([www.RRB.gov](http://www.RRB.gov))



# CONTACT INFORMATION

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