

**Employer Payroll Audit Procedures
for the
International Union of Painters and Allied
Trades Industry Pension Fund**



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Employer Payroll Audit Procedures

I. DEFINITIONS

Pension Fund: The International Union of Painters and Allied Trades Industry Pension Fund ("Pension Fund" or "IUPAT Pension Fund") is the authorized collection agent for the International Union of Painters and Allied Trades Annuity Plan, the Finishing Trades Institute ("FTI") *fka* International Union Of Painters and Allied Trades Joint Apprenticeship and Training Fund, the Painters and Allied Trades Labor Management Cooperation Initiative ("LMCI"), and the Political Action Together Fund ("PAT"), which includes the Political Action Together Legislative and Educational Committee and the Political Action Together Political Committee.

Contributing Employer or Employer: The term Contributing Employer means any person or entity that is required under the terms of a Collective Bargaining Agreement or a Participation Agreement, or any person or organization that is otherwise required by law, to make contributions to the Fund. In the case of an employer having more than one place of business, the term "Contributing Employer" shall apply only to the place of business specifically covered by the Collective Bargaining Agreement or Participation Agreement requiring contributions to the Pension Fund except as otherwise required by law.

Administrative Office: The Administrative Office processes reports and receives data from related local fund administrators as to hours worked or paid by Contributing Employers. The Administrative Office provides the data necessary for the completion of Employer Payroll Audits on behalf of the Pension Fund.

Board of Trustees / Trustees: The Board of Trustees for the IUPAT Pension Fund.

Audit and Delinquency Subcommittee: As appointed by the Pension Fund's Board of Trustees, the Subcommittee has the authority to review, revise and restate all procedures affecting the collection of delinquent contributions including, but not limited to, these Payroll Audit Procedures.

II. TYPES OF PAYROLL AUDITS

The Pension Fund has the right to conduct payroll audits of any Contributing Employer for any reason and at any time, regardless of the date, type, timeframe, or scope of the last audit. All Audits should cover all trades and all areas/jurisdictions where a Contributing Employer has performed work. The following are the types of audits that may be conducted:

Random or Scheduled Payroll Audits: Audits of the payroll and other records of Contributing Employers that are scheduled and/or performed approximately every three years.

For-Cause Payroll Audits: Audits generally performed when a Contributing Employer may not be reporting or paying its contributions correctly, or has failed to submit any monthly remittance reports. These audits generally occur when: (a) members submit paystubs demonstrating that their hours have not been reported correctly; (b) a Contributing Employer's reporting dramatically changes; (c) certified payroll reports do not match a

Contributing Employer's contribution reports; (d) a Contributing Employer reports "no work" while observed to be working; or (e) there are reports or suspicions relative to a Contributing Employer's work, reporting or payment activity.

Courtesy Payroll Audits: Audits generally performed after a newly signed Contributing Employer (other than those signatory to a Project Labor Agreement ("PLA")) has been signatory for at least six (6) months, to confirm or correct its reporting to the Pension Fund. Absent a deliberate or unreasonable disregard of the Employer's obligations, if any amounts are found to be due and owing, the Pension Fund may elect to waive any liquidated damages and/or audit costs.

Exit Payroll Audits: Audits performed when an Employer may or has gone out of business or ceases to have an obligation to contribute to the Pension Fund under one or more Collective Bargaining Agreements.

III. LOCATION OF PAYROLL AUDITS

At the discretion of the Auditor, payroll Audits may be conducted remotely, in person or a hybrid of the two. Audits shall be performed in person at the request of the Fund Administrator and/or Chief Legal Officer.

A remote audit occurs when all necessary documents for the payroll audit are uploaded to a secure portal at the request of the Auditor.

A hybrid audit occurs when the Auditor requests that all or a portion of the required documents be uploaded to a secure portal, in advance of conducting an in person/on-site audit.

If an Employer is (or may be) related to a separate construction related entity, the payroll audit is to be conducted in person/on-site, unless the Auditor, Fund Administrator and/or Chief Legal Officer determines otherwise.

IV. PAYROLL AUDIT COSTS:

Employer shall pay all Auditor fees/costs in connection with any payroll audit, except as specified for Courtesy Audits.

Where the Pension Fund joins in audits performed by a local fund, costs will be assessed pursuant to the procedures of the local fund.

If the Pension Fund is required to take action to either enforce compliance or compel payment with a payroll audit, the Employer must pay for the additional costs incurred for the Auditor's time. The Employer must also pay for the attorneys' fees and costs incurred by the Pension Fund.

If additional work is required by the Auditor either to respond to a dispute or otherwise, the Employer may be billed for the additional costs incurred for the Auditor's time, plus the attorneys' fees and costs incurred by the Pension Fund.

The Fund Administrator has discretion to waive or adjust the payroll audit costs that are assessed against a Contributing Employer.

V. PAYROLL AUDIT PROCESS

Conducting the Payroll Audit:

1. Select employers who have not been audited for three (3) years. Auditors will prepare a proposed sample for each calendar year which will be provided to the Administrative Office at the end of the prior calendar year. The Administrative Office will send letters to each selected Employer notifying them that they were selected for a payroll audit and will be contacted by the Auditor for scheduling. The Notice of Audit (“NOA”) sent by the Administrative Office will include the time period to be covered by the audit. The NOA will specify that the audit will include all area(s) and/or District Council(s) where the Contributing Employer is a signatory and/or where it has performed any work.
2. The Administrative Office will provide the Auditor with a summary of contributions reported by the Contributing Employer during the audit period. The Auditor will request an updated report if necessary.
3. The Administrative Office will provide the Auditor with the Collective Bargaining and Subscriber/Participation and/or other Agreement(s) applicable during the audit period, along with the Employer’s signature page and any corresponding wage sheets.
4. The Auditors are to contact the Contributing Employers selected to be audited. If any Employer fails to respond to the Auditor after three attempts and/or refuses to provide the documents requested within 2-4 weeks, the Administrative Office is to be notified.
5. The Auditors are to promptly review all documents provided to confirm that all records have been received. If the Auditor does not receive all of the documents from the Employer, the Auditor may provide the Employer with more time, not to exceed two (2) additional weeks. If a full production of documents still does not occur, the Auditor is to notify the Administrative Office of the Employer’s failure to comply.

The initial documents to be produced must include (but are not limited to) the following for all Contributing Employers:

- Payroll Reconciliation Records:
 - Payroll registers or other documents which show wages paid and hours worked by week/month/year;
 - Federal 941 Quarterly Payroll Tax Returns;
 - Annual W-2s and W-3s;
 - Quarterly Unemployment Compensation Tax Returns;

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- Employee or Labor Identification Records:
 - Annual W-2s and W-3s;
 - Quarterly Unemployment Compensation Tax Returns;
 - Detailed documentation of the job classifications of employees not reported to the Pension Fund;
 - Monthly transmittals to the Pension Fund showing the names reported for benefits;
 - Dispatch slips;
 - Subcontractor Review:
 - Cash disbursement journals (check registers);
 - 1099/1096 report;
 - Any invoices requested by the Auditor.
 - Payroll Testing:
 - Payroll registers or other documents which show wages paid and hours worked by week/month/year summary; Must get format that allows Auditor to post findings in the same format employer reports hours to Pension Fund (i.e. Weekly or Monthly)
 - Monthly transmittals to the Pension Fund showing the names reported for benefits;
 - Monthly transmittals to other Trust Funds;
 - Timecards and/or time sheets;
 - Dispatch slips;
6. The Auditor will inspect the Collective Bargaining Agreement (CBA) and, if applicable, any related documents, including, but not limited to additional contracts, Project Labor Agreements, Memoranda of Understanding or Subscription/Participation Agreement(s). The Auditor must review the relevant language (for example, hours worked vs. hours paid) for each applicable fund.
 7. If non-bargaining employees or labor is reported, the Auditor will verify that they are reported in accordance with the Employer's Subscription/Participation Agreement(s).
 8. The Auditor will compare the hours reported to the Pension Fund with the Employer's compensation records.
 9. The Auditor will compare individuals appearing on the Employer's compensation records, annual federal tax return (Form W-2) and quarterly state tax returns to the Pension Fund contribution reports to ensure that all individuals performing covered work are reported.
 10. During the audit, the Auditor will verify that correct contribution rates were used in reporting.
 11. The Auditor is to inspect the cash disbursement journal and/or accounts payable records and 1096 reports / 1099s for compensation paid outside the payroll system to employees and/or non-signatory sub-contractors.
 12. The Auditor should identify any erroneous wage payments observed without quantifying the wage discrepancies unless requested.

13. During the audit, the Auditor should determine if other entities are working out of the same location, or under the same management, and whether those entities perform covered work. The Auditor should pay attention to email addresses, titles of contacts and any mention of any other parent, brother/sister or other entities. When scheduling the payroll audit, the Auditor should take note if the Employer contact appears to be working for another entity. If any evidence of another entity is discovered, the Auditor should contact the Administrative Office and Legal Counsel immediately.
14. The Auditor will review the list of retired participants provided by the Administrative Office. If any retired participants are noted as performing work for a Contributing Employer, all required contributions should be included in the report. The Administrative Office shall be immediately notified of the discrepancies for suspension of benefit purposes.
15. If all required and/or additional documents are still not received from the Employer, the Auditor will refer the matter to the Administrative Office and then to Legal Counsel. If Legal Counsel determines that the requested documents are not available and/or that the audit should be completed without the documents, the Auditor may disclose that the payroll audit was completed as a limited scope audit. A “scope limitation” should only be used in extreme or unusual circumstances that warrant the limitation.

Any questions that arise during a payroll audit, including, but not limited to the Auditor’s questions on interpretation or application of the Collective Bargaining Agreement, as well as what constitutes covered work under an Agreement will be directed to the Administrative Office. A draft payroll audit report shall not be sent to the Employer for review until any pending questions are answered.

Report Format:

Unless otherwise agreed to by the Administrative Office, a Payroll Audit Report should contain the following:

- An initial summary page that lists the amounts due for principal, interest, liquidated damages and costs, broken down by fund.
- A narrative as to the issues found during the audit;
- A key identifying the specific issues and matching them to the findings;
- Only the last 4 digits of each individual’s social security number (SSN);
- Calculations of liquidated damages, interest and audit costs with a clear “through date” on interest calculations;
- A clear showing of what hours were reported by the Employer, what hours should have been reported, the difference between the two and the calculation of what is due;
- For rate issues, the report should identify the rate used, the correct rate, the difference between the two and the shortages due; and,
- A clear indication as to whether the report is a draft, final or revised report.

Mistaken Contributions:

The Auditor shall quantify mistaken contributions resulting in overpayments (confirmed as eligible for credit) and/or improper payments (may be eligible for credit), but will not credit the amounts against any findings on the audit report. All potential credits will be addressed by the Administrative Office. Mistaken contributions may only be refunded or credited to the

Employer pursuant to the Pension Fund's policies and procedures and only after the Administrative Office has confirmed the availability of the refund or credit.

Upon Completion of Payroll Audit:

Exit Interview: Upon completion of a payroll audit, the Auditor will make every effort to provide the Employer (through an "Exit Interview") with a general description of discrepancies and allow the Employer an opportunity, at that time, to provide evidence to support immediate corrections of the payroll audit. A brief summary stating the result of the Exit Interview should be noted on the audit report.

Draft Audit Report: The Auditor will send a copy of the draft payroll audit report, clearly delineating the report as a "draft" (via watermark or other markings), to the Employer for review, providing them with fourteen (14) days to either accept the findings or provide evidence in support of a dispute. If no dispute is received within fourteen (14) days, the audit report will become final.

Disputes: If the Employer provides a dispute with documentation in response to the draft report, the Auditors will review and evaluate the information provided. Specifically:

- The Auditor will advise the Administrative Office and/or Legal Counsel of all disputes received that require their input and/or input from the Union to evaluate the dispute. Legal Counsel will be advised of any disputes that are received relative to matters referred to Legal Counsel.
- The Auditor will respond to all disputes even if the report will not be revised as a result. Reports should not be revised for things that occur after the audit was completed (i.e. later made payments). The audit report is intended as a snapshot of the Employer's status at the time of the audit.

If revisions to the report are appropriate, the Auditor will prepare a revised report and provide it to the Administrative Office for billing. The report shall identify itself as final, with a clear revision date visible. Employer will be advised that the report has been put in final.

Finalization and Billing: The Auditor will send both the Administrative Office and Legal Counsel a copy of the finalized payroll audit report. The Administrative Office will also receive a copy of the finalized payroll audit report in excel format and/or another format acceptable to the Administrative Office. The excel or other approved format report will contain full social security numbers (SSNs) at the request of the Administrative Office. If full social security numbers are included, the report may only be sent in an encrypted and secured manner approved by the Administrative Office.

VI. STATUS REPORTS:

The Auditors are to provide regular status reports that clearly include the status of all payroll audits referred to them. The report shall include the Employer name, their District Council(s), the status of the payroll audit and the findings (if applicable).

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Status reports will also identify the following:

- The date that the audit was scheduled / performed;
- The date that preliminary findings were sent to the Employer;
- The date that the final audit report was sent to the Administrative Office;
- Any disputes received and the result of the dispute, including any revisions to the audit report(s).