

# Workers' Compensation Payroll Audit Preparation Guide

Prepared for:

**Global Distributing, Inc.**



Presented by:

**Certified WorkComp Agency**  
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## **Fighting Workers' Compensation Overcharges**

### ***Lack of Attention***

Workers' Compensation costs are a major expense item for most businesses today. Although most businesses focus on claims handling and loss prevention to reduce costs for this mandated coverage, there is very little available about the premium audit function.

Since your final Workers' Compensation cost is determined at policy expiration with a review of your payroll records, it is essential you're prepared for the final audit and that the audit be conducted properly. Prepare properly and most likely you will legally prevent the insurance company from overcharging you.

When your insurance policy first goes into effect, your premium is based on assigned classifications, estimated payrolls (referred to as remuneration), and an experience modification factor. At the policy's expiration, the insurance company conducts a payroll audit and converts estimated payrolls into actual payrolls, and assigns those payrolls to a classification.

### ***When You Don't Know the Rules, It's Hard to Win the Game***

The audit process is designed so that when mistakes are made, (and mistakes are common) you will almost always be overcharged.

Our goal is to assist with a step-by-step process to guarantee you will never be overcharged on your Workers' Compensation premium audit.

### ***A Few Words About the Auditor***

Every Workers' Compensation policy must be audited. With so many audits to complete, auditors are likely to take the path of least resistance to complete your audit. Our goal is to make sure that when the auditor arrives, the path of least resistance leads to your premium audit being exactly correct. If you don't have all the appropriate records organized for the auditor, it is likely you will be overcharged.

Without the proper records, auditors may make mistakes, such as:

- Assigning payrolls to highest rated classifications when they belong in a less expensive class.
- Charging for subcontractors who are separately insured
- Overlooking deductions such as overtime

Knowing the time constraints under which the auditor works can be helpful. The Institute of WorkComp Professionals has found that efforts to make the auditor's job easier can be rewarded by more favorable audits.

### ***How Should You Prepare for an Audit***

First, create your own audit package. When you compile the information needed and then present it in a format the auditor is familiar with, you will:

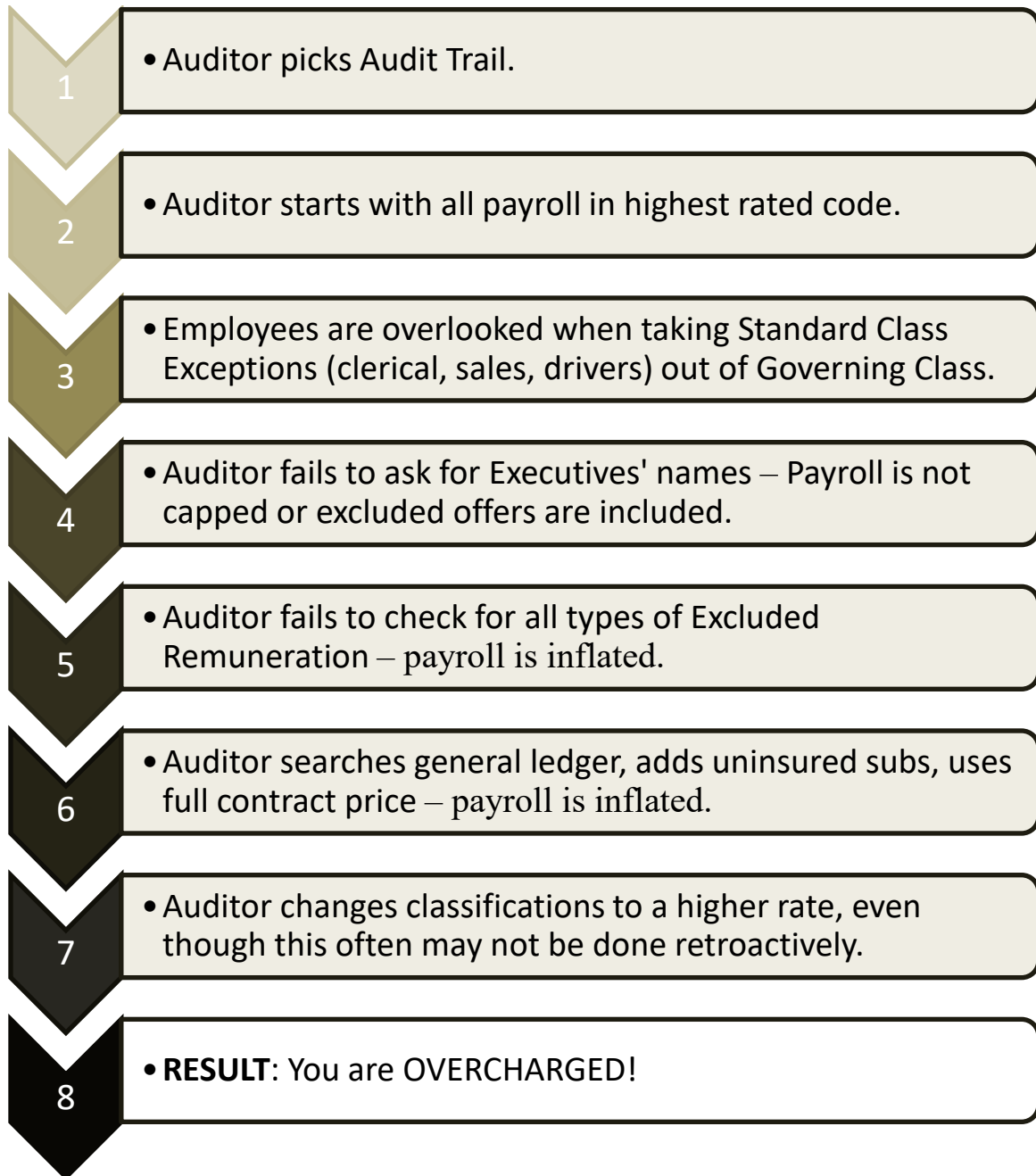
- Simplify the auditor's job
- Reduce probing questions
- Know beforehand what to expect
- Control the data the auditor observes
- Help manage the ultimate cost of your workers' compensation insurance

It is important to remember that the more detail you provide to support the audit, the better. Detail not only makes data more reliable, but it also makes the auditor look better in the eyes of his or her supervisor. Many auditors will even accept a well-documented audit as their own.

Our job is to help you prepare the *Mistake-Free, No Overcharge* premium audit.

## Typical Audit Process

*INHERENTLY WORKS TO YOUR DISADVANTAGE!*



## Classifications

### ***Classify the Business:***

*Classifications relate to your business*

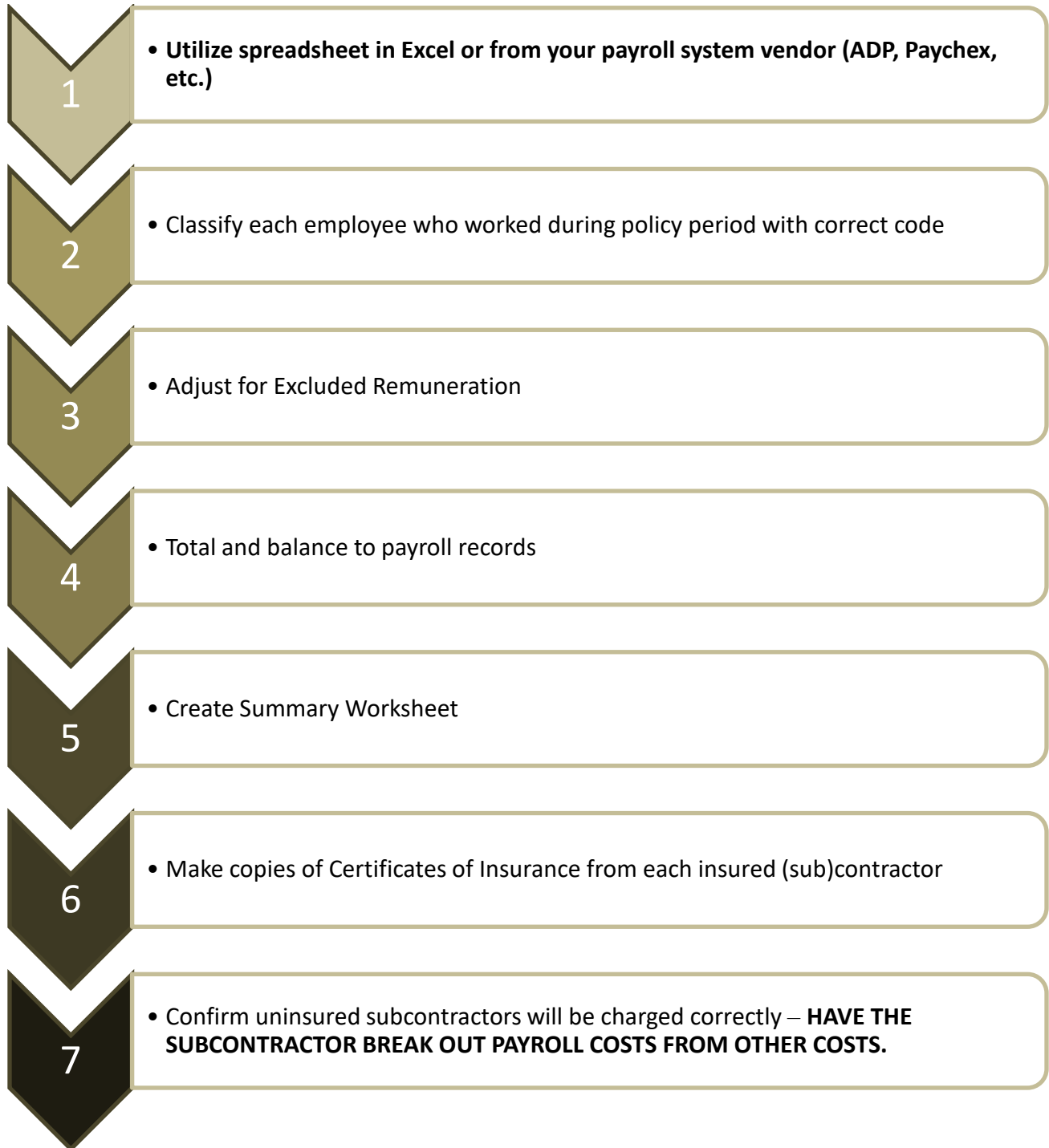
### ***Do NOT Classify Individual Duties:***

*Classifications DO NOT relate to the separate employment, occupations, or duties of individual employees in your business.*

### **Exceptions:**

- Construction, Oil Field Services, Staffing, and Agriculture: Separation of payroll is allowed.
- Clerical, Outside Sales and Drivers may be specific for your state and/or governing classification.

## Build an Overcharge-Proof Premium Audit Package



## Excluded Remuneration

### *Do Not Include Remuneration for:*

Overtime
Tips or other gratuities received by employees
Your payments to group insurance or group pension plans for employees, other than those covered by Rule 2-B-1-f and Rule 2-B-1-m
Your payments into third-party trusts for the Davis-Bacon Act or a similar prevailing wage law provided the pension trust is qualified under IRC Sections 401(a) and 501(a)
The value of special rewards for individual invention or discovery
Dismissal or severance payments except for time worked or vacation accrued
Payments for active military duty
Discounts on goods employees purchased from you
Expense reimbursements to employees, to the extent that your records confirm that the expense was incurred as a valid business expense
<p>Reimbursed expenses and flat expense allowances (except for hand or hand-held power tools) paid to employees may be excluded from the audit only if all three of the following conditions are met:</p> <p>(1) The expenses are incurred for the business of the employer</p> <p>(2) The amount of each employee's expense payments or allowances are shown separately in the records of the employer</p> <p>(3) The amount of each employee's expense reimbursement is a fair estimate of the actual expenses incurred by the employee in the conduct of his/her work</p> <p><b>Note:</b> <i>When it can be verified that the employee was away from home overnight on the business of the employer, but the employer did not maintain verifiable receipts for incurred expenses, a reasonable expense allowance, limited to a maximum of \$75 per day, is permitted.</i></p>
Supper money for late work
Work uniform allowances



Sick pay paid to an employee by a third party such as an insured's group insurance carrier that is paying disability income benefits to a disabled employee

Employer-provided perks such as:

1. Use of company-provided automobiles
2. Airplane flights
3. Incentive vacations (e.g., contest winners)
4. Discounts on property or services
5. Club memberships
6. Tickets to entertainment events
7. Educational assistance
8. Relocation and moving expenses

Your contributions to employee benefit plans such as:

1. Employee savings plans
2. Retirement plans
3. Cafeteria plans (IRC 125)

## Uninsured SubContractors

**For all insured contractors, copy certificates of insurance. Confirm the period of the audit is included in the coverage period.**

**For all uninsured subcontractors, ask the sub to break out the cost of the materials for the job. That amount can be excluded.**

**THE RULE: (Additional Rules: AZ, ME) (Exceptions: CO, MO, OR, TX, UT )**

1. In those states where workers compensation laws provide that a contractor is responsible for the payment of compensation benefits to employees of its uninsured subcontractors, the contractor must furnish satisfactory evidence that the subcontractor has workers compensation insurance in force covering the work performed for the contractor. The following documents may be used to provide satisfactory evidence:
  - Certificate of insurance for the subcontractor's workers compensation policy
  - Certificate of exemption
  - Copy of the subcontractor's workers compensation policy
2. For each subcontractor not providing such evidence of workers compensation insurance, additional premium must be charged on the contractor's policy for the uninsured subcontractor's employees according to Subcontractor Table 1 and 2 below.

**Subcontractor Table 1**

**(Exceptions: FL, TN)**

<b>If the contractor has not furnished evidence of workers compensation insurance and . . .</b>	<b>Then to calculate the additional premium . . .</b>
Furnishes complete payroll records of the subcontractor's employees . . .	Use the payroll detailed in the records
Does not furnish complete payroll records and the subcontract price does not reflect a definite payroll amount . . .	Use the full subcontract price of the work performed during the policy period by the subcontractor as payroll
Does not furnish complete payroll records, but documentation of a specific job discloses that a definite amount of the subcontract price represents payroll . . .	Use the payroll amount indicated by the documentation as the payroll, subject to the minimums in Subcontractor Table 2 below

**Subcontractor Table 2****(Exceptions: FL, TN)**

<b>If the job involves:</b>	<b>Then the minimum to calculate additional premium is:</b>
Mobile equipment with operators (such as but not limited to earth movers, graders, bulldozers, or log skidders)	Not less than 33 1/3% of the subcontract price
Labor and material	Not less than 50% of the subcontract price
Labor only	Not less than 90% of the subcontract price
Piecework	Not less than 100% of the subcontract price (The entire amount paid to pieceworkers must be the payroll.)

3. Vehicles with drivers, chauffeurs, messengers, or helpers entitled to benefits under workers compensation insurance law may be engaged under verbal or written contract. The amount used to calculate the premium is determined in the following manner:

**Subcontractor Table 3****(Exceptions: LA, OR, RI)**

<b>If the owner of such vehicles has not furnished evidence of workers compensation insurance and . . .</b>	<b>Then . . .</b>
Payroll can be obtained	The total payroll of these drivers must be included as payroll of the insured employer that contracted for the vehicles.
Payroll cannot be obtained or the driver is an owner-operator and does not receive a set payroll	1/3 of the total contract price for the vehicles must be included as payroll of the drivers.
The contract price does not include the cost of fuel, maintenance, or other services provided to the owner or the owner-operator of a vehicle under contract	The value of these goods and services must be added to the contract price before determining the 1/3 amount.

4. In all cases, the payroll determined for subcontractors is assigned to the classification that would have applied if the individuals had been employees of the contractor.
5. In all cases, if an experience modification has been established for the contractor, this experience modification must be applied to the premium developed for the uninsured subcontractor.

## SAMPLE AUDIT PACKAGE SUMMARY WORKSHEET

*Workers' Compensation Audit 01/01/22 – 01/01/23*

**TOTAL FOR CLASS CODE: 8810                      RATE: .55**

<b>1<sup>st</sup> Quarter</b>	\$ 233,045.00	
<b>2<sup>nd</sup> Quarter</b>	196,442.10	
<b>3<sup>rd</sup> Quarter</b>	237,294.17	
<b>4<sup>th</sup> Quarter</b>	213,720.72	
<b>Total Payroll</b>	<b>\$ 880,501.99</b>	
<b>Excluded Remuneration Adjustment</b>	<b>(7,307.63)</b>	
<b>Adjusted Payroll</b>	<b>\$ 873,194.36</b>	
<b>Premium</b>		<b>\$4,802.57</b>

**TOTAL FOR CLASS CODE 8833                      RATE: 2.05**

<b>1<sup>st</sup> Quarter</b>	\$1,110,359.10	
<b>2<sup>nd</sup> Quarter</b>	890,109.12	
<b>3<sup>rd</sup> Quarter</b>	1,010,351.84	
<b>4<sup>th</sup> Quarter</b>	851,774.52	
<b>Total Payroll</b>	<b>\$3,862,504.58</b>	
<b>Excluded Remuneration Adjustment</b>	<b>(58,408.51)</b>	
<b>Adjusted Payroll</b>	<b>\$3,804,096.07</b>	
<b>Premium</b>		<b>\$77,983.97</b>

**TOTAL FOR CLASS CODE 9040                      RATE: 9.67**

<b>1<sup>st</sup> Quarter</b>	\$ 88,722.81	
<b>2<sup>nd</sup> Quarter</b>	79,026.13	
<b>3<sup>rd</sup> Quarter</b>	98,407.15	
<b>4<sup>th</sup> Quarter</b>	84,718.67	
<b>Total Payroll</b>	<b>\$ 350,874.76</b>	
<b>Excluded Remuneration Adjustment</b>	<b>(5,428.83)</b>	
<b>Adjusted Payroll</b>	<b>\$ 345,445.93</b>	
<b>Premium</b>		<b>\$33,404.62</b>

## 16 Warning Signals that Your Insurance Company May Have Overcharged You on Your Workers' Compensation Premium Audit

Yes No

<input type="checkbox"/>	<input type="checkbox"/>	Did you get a copy of the auditor's worksheets?
<input type="checkbox"/>	<input type="checkbox"/>	1. Was the audit conducted at the accountant or bookkeeper's office?
<input type="checkbox"/>	<input type="checkbox"/>	2. Did the insurance company change your basic classification or reallocate payroll?
<input type="checkbox"/>	<input type="checkbox"/>	3. Was your experience modification increased during the policy period?
<input type="checkbox"/>	<input type="checkbox"/>	4. Were charges made for uninsured subcontractors or owner-operators?
<input type="checkbox"/>	<input type="checkbox"/>	5. Does the audit include a charge for paid commissions?
<input type="checkbox"/>	<input type="checkbox"/>	6. Did you receive a large additional or return premium? (you may be entitled to more).
<input type="checkbox"/>	<input type="checkbox"/>	7. Did your state implement a rate change?
<input type="checkbox"/>	<input type="checkbox"/>	8. Were credits that were on last year's policy removed from your current policy?
<input type="checkbox"/>	<input type="checkbox"/>	9. Are you a contractor involved in several types of work but not all of them are shown on your policy?
<input type="checkbox"/>	<input type="checkbox"/>	10. Was your policy canceled or rewritten with a different effective date?
<input type="checkbox"/>	<input type="checkbox"/>	11. If you are an executive officer of the corporation, were your wages assigned to a high-rated classification?
<input type="checkbox"/>	<input type="checkbox"/>	12. Are you a contractor involved in a <i>wrap-up</i> construction project?
<input type="checkbox"/>	<input type="checkbox"/>	13. Does your policy contain a Residual Market or Assigned Risk Surcharge?
<input type="checkbox"/>	<input type="checkbox"/>	14. Were you awarded any contracts under the Davis-Bacon Act?
<input type="checkbox"/>	<input type="checkbox"/>	15. Are you absolutely certain that you didn't overpay your audit?

**(Just after policy expiration and before auditor arrives, have an "overcharge-proof audit prepared.)**

**If you checked "yes" or are unsure of any answers, please call so we can review before the audit takes place.**

## Auditor Easy In – Easy Out Tips

### *Points to Remember*



#### **Points to Remember**

- Assign knowledgeable, friendly staff person to work with the auditor.
- Treat auditor as a welcomed guest – provide a clean, well-lit workspace.
- Present Auditor with your Premium Audit Package:
  - Summary worksheet
  - Copies of payroll report
  - Copy of payroll tax returns (941, NYS-45-ATT, W-4-B)
  - Copies of certificates of insurance
  - Contracts with bills/invoices showing breakout of materials
  - Cash book/check book/general ledger
- Offer no information unless Auditor asks for it.
- Escort Auditor if Auditor asks to tour facilities.
- Schedule Audit for Friday afternoon.
- Wear appropriate attire:
  - Clerical people in clerical attire, etc.