

Navigating Work Comp Audits

Workers' compensation insurance is essential for protecting both employers and employees in case of work-related injuries or illnesses. An integral part of this insurance process is the **workers' compensation audit**. While the term "audit" might sound intimidating, it's far less complicated and stressful than a tax audit. Understanding the audit's purpose, the role of estimated premiums, and what information auditors seek can help businesses approach the process confidently and efficiently.

What Is the Purpose of Workers' Compensation Insurance?

Workers' compensation ensures that employees who suffer work-related injuries or illnesses receive medical care, rehabilitation, and wage replacement benefits. In exchange, employees typically waive their right to sue their employer for negligence, fostering a balanced, no-fault system that benefits both parties.

The Role of Estimated Premiums

When a business first purchases workers' compensation insurance, the insurer calculates an **estimated premium** based on various factors, including, but not limited to:

- **Payroll:** The total expected payroll for the policy period.
- **Employee Classifications:** The type of work each employee performs, with associated risk levels.
- **Industry Classification:** The overall risk profile of the company's main operations.

Because these factors are estimated at the beginning of the policy period, they may not always reflect actual operations. The audit ensures that the final premium accurately reflects the real exposures.

Why Do Insurers Conduct Audits?

Audits ensure that the premium charged accurately matches the business's actual operations. They serve several important purposes:

- **Ensuring Fairness:** Prevents overpayment or underpayment for coverage.
- **Maintaining Accuracy:** Provides insurers with precise data for future policy adjustments.
- **Encouraging Compliance:** Verifies that employees are classified correctly according to their job duties and associated risks.

These checks protect both the insurer and the business, maintaining the integrity of the workers' compensation system.

What Information Is Collected During the Audit?

During a workers' compensation audit, the auditor will typically review various records to assess the accuracy of the estimated premium. Here's what to have on hand:

- **Payroll Records:**
 - Detailed payroll summaries

- Employee earnings reports
 - Federal and state tax filings (e.g., IRS Form 941)
 - **Employee Classification:**
 - Job descriptions and duties for each employee
 - Records of any subcontractors or independent contractors used
 - **Certificates of Insurance for Subcontractors:**
 - To verify whether subcontractors had their own workers' compensation insurance during the policy period.
 - For more information on proper classification and documentation for subcontractors, check out [our blog here](#).
 - **Business Financial Records:**
 - Profit and loss statements
 - General ledgers
 - **Additional Documentation:**
 - Overtime and premium pay details
 - Records of excluded individuals, such as owners or partners who may opt out
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Preparing for a Smooth Audit

Preparation is key to a smooth audit process. Here are some steps to take:

- **Organize Records:** Keep payroll and classification records up-to-date and readily accessible.
 - **Review Subcontractor Documentation:** Ensure you have current insurance certificates for any subcontractors used.
 - **Understand Job Classifications:** Accurately classify each employee based on their actual job duties.
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Reasons to Reopen or Correct an Audit

It's important to respond to your insurance carrier's communications, but if you've faced challenges with past audits, you're not alone. Many businesses need help correcting issues and getting back on track. Here are some common reasons to revisit previous audits:

Discrepancies in Payroll or Classification:

If you notice errors in reported payroll figures or employee classifications that could impact your premium, correcting these inaccuracies can ensure you're not overpaying or underpaying for coverage.

- **Unreported Changes:**

Significant changes in business operations, such as adding new job roles or shifting work duties, might not have been accurately reflected in the previous audit.
 - **Missing or Incorrect Documentation:**

If subcontractor certificates or other critical documents were missing during the initial audit but are now available, providing them can help adjust your premium.
 - **Appeals or Disputes:**

If you disagreed with the findings of a previous audit, reopening it for review might be necessary, especially if new evidence supports your case.
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Steps to Reopen or Correct an Audit

- **Identify the Issue:**
Gather evidence of the error, such as payroll reports, job descriptions, or subcontractor agreements. Clear documentation strengthens your case.
 - **Contact Your Insurer:**
Reach out to your insurance carrier or auditor to explain the issue and request a review. Provide all relevant documents to support your claim.
 - **Formal Appeal Process:**
If your insurer has a formal appeal process, follow it carefully. This typically involves submitting a written request detailing the discrepancies and providing supporting documentation.
 - **Consult with Professionals:**
Consider working with a trusted workers' compensation advisor. They can help identify discrepancies, prepare documentation, and negotiate with your insurer on your behalf. This is only one of the many services we provide to clients we serve.
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Benefits of Correcting Past Audits

- **Potential Cost Savings:**
Correcting inaccuracies can reduce your premium costs, especially if you were overcharged due to incorrect classifications or payroll errors.
 - **Compliance and Accuracy:**
Ensuring that your records and classifications are accurate helps maintain compliance with workers' compensation regulations and prevents future audit issues.
 - **Better Future Estimates:**
Accurate audit data helps insurers set fairer estimated premiums for future policy periods, reducing the likelihood of large adjustments down the line.
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Proactive Prevention for Future Audits

To minimize the need for reopening past audits, consider implementing these best practices:

- Regularly review and update payroll and classification data.
- Maintain organized, easily accessible records.
- Periodically review your workers' compensation policy with a trusted workers' compensation advisor to ensure it aligns with your current business operations.

Being proactive helps ensure a more efficient audit and reduces the likelihood of unexpected changes to your premium. If you need assistance preparing for an audit or optimizing your overall workers' compensation program, reach out for guidance.

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