

Workers' Compensation Premium Audit Preparation Guide



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Workers' Compensation Payroll Audit Preparation Guide

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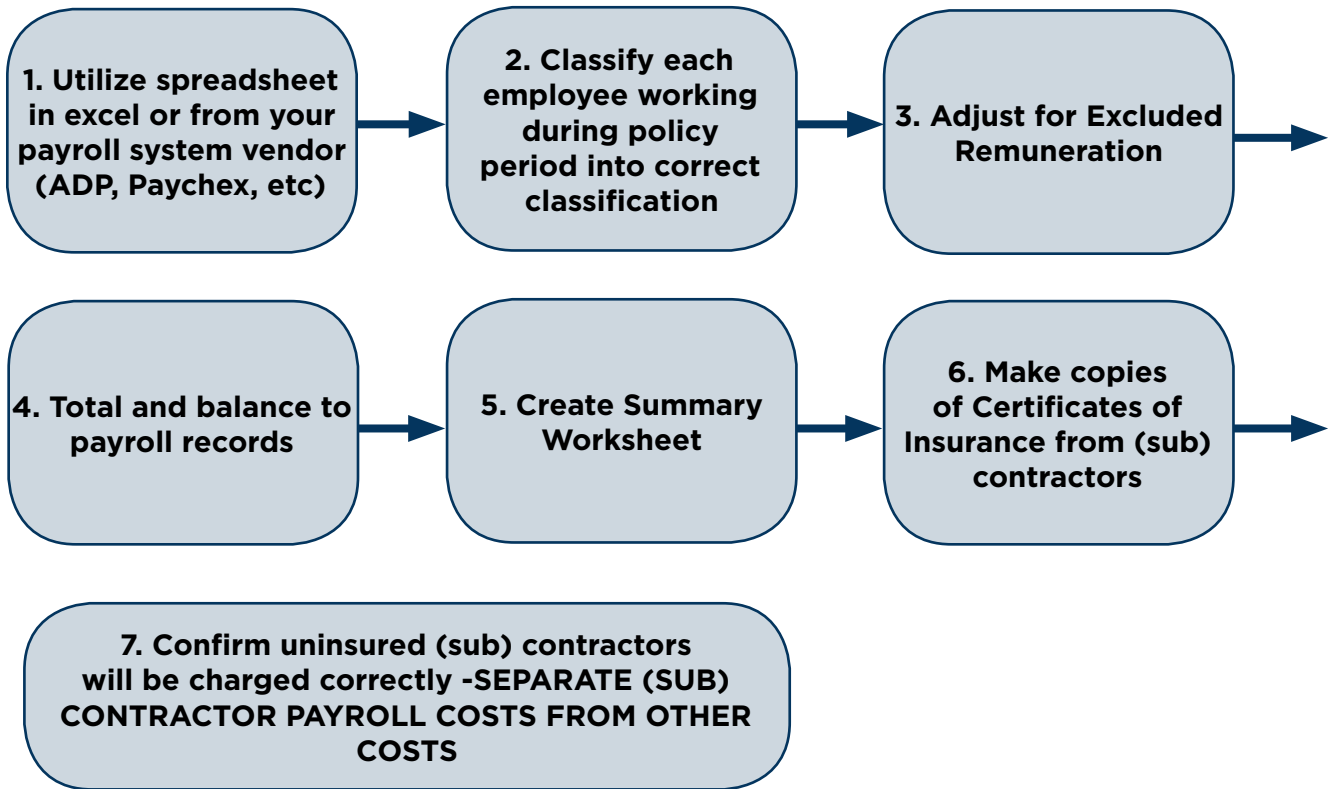
I. The Typical Audit Process

Inherently works to your disadvantage!

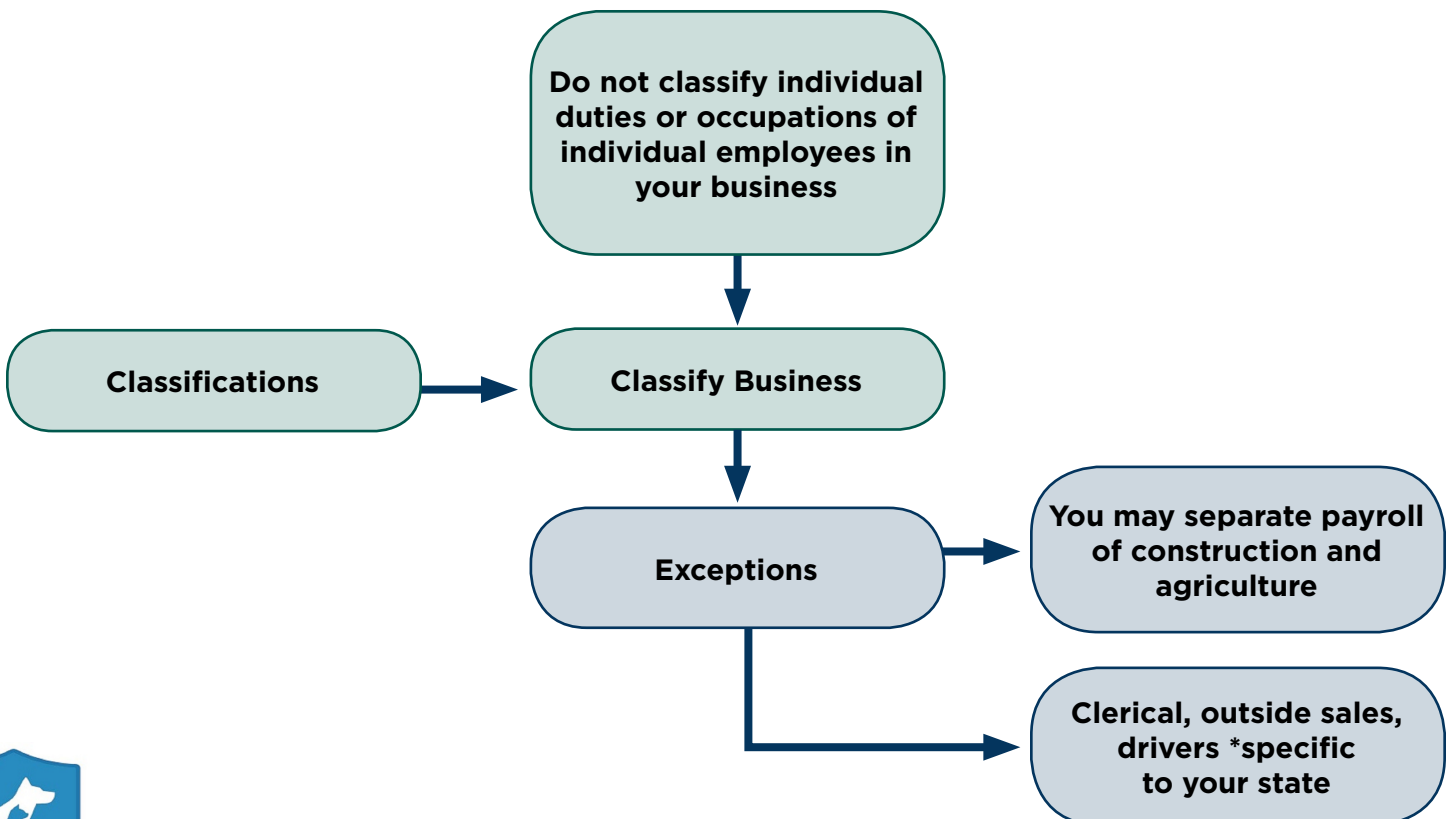


II. Build Audit Package/Classification

Use this Payroll Audit Preparation Guide to eliminate overcharges!



Classifications



III. Excluded Remuneration Checklist

Do Not Include Payroll For:

- Overtime
 - Tips or other gratuities employees receive
 - Payments by employer 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
 - Payments by employer into third-party trusts for Davis-Bacon Act or similar prevailing wage law provided pension trust is qualified under IRC Sections 401(a) and 501(a)
 - 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
 - Employee discounts on goods purchased from employee's employer
 - Expense reimbursements to employees, to extent an employer's records confirm the expense was incurred as valid business expense
 - Reimbursed expenses and flat expense allowances (except for hand or hand-held power tools) paid to employees may be excluded from audit only if all three of following conditions are met:
 - (1) Expenses are incurred for employers' business
 - (2) Post amount of each employee's expense payments or allowances in separate record
 - (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
- Note:** *When it can be verified that the employee was away from home overnight on employer's business, but the employer did not maintain verifiable receipts for incurred expenses, a reasonable expense allowance, limited to a maximum of \$30 per day, is permitted.*
- Supper money for late work
 - Work uniform allowances
 - Sick pay paid to employee by third party such as employer's group insurance company that is paying disability income benefits to 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
 - Employer contributions to employee benefit plans such as:
 - (1) Employee savings plans
 - (2) Retirement plans
 - (3) Cafeteria plans (IRC 125)



IV. Uninsured Contractors

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: Contractor shall furnish satisfactory evidence that subcontractor had workers' compensation insurance in force covering the work performed for contractor. For each subcontractor whom such evidence is not furnished, additional premium shall be charged on the policy that insured the contractor as follows:

- The contractor shall provide a complete payroll record of the employees of each uninsured subcontractor. Premium on such payroll shall be based on the classifications that would have applied if the employees of the subcontractor had been employees of the contractor.
- If the contractor does not supply the payroll records of its subcontractor, the full subcontract price of the work performed during the policy period by the subcontractor shall be established as the payroll of the subcontractor's employees. The additional premium shall be charged on that amount as payroll.

Exception to 3.b. above:

If investigation on a specific job discloses that a definite amount of the subcontract price represents payroll, such amount shall be the payroll for the additional premium computation.

In contracts for:

- a) **Mobile equipment with operators** (such as but not limited to earth movers, graders, bulldozers, or log skidders), the payroll shall not be less than 33 1/3% of the subcontract price.
- b) **Labor and material**, the payroll shall not be less than 50% of the subcontract price.
- c) **Labor only**, the payroll shall be established as not less than 90% of the subcontract price.

If vehicle with drivers, chauffeurs, or helpers are engaged under contract and the owner of such vehicles has not furnished evidence that the workers' compensation obligation has been insured, the total payroll of such drivers, chauffeurs, or helpers shall be included as payroll of the insured employer that contracted for such vehicle.

Such payroll shall be assigned to the classification applicable in that risk to drivers. If that payroll cannot be obtained, 33 1/3% of the total contract price for the vehicle shall be considered as payroll of the drivers, chauffeurs, or helpers.

If the owner of a vehicle under contract also is a driver and is entitled to workers' compensation benefits, and has not furnished evidence that such workers' compensation obligation has been insured, 33 1/3% of the contract price for that vehicle shall be included as payroll of the insured employer that contracted for the vehicle.

When the contract price does not include the cost of fuel, maintenance, or other services provided to the owner or owner-operator of a vehicle under contract, the value of such goods and services shall be added to the contract price before determining the 33 1/3% amount.



V. Sample Audit Package Summary Worksheet

Workers' Compensation Audit 01/01/06 - 01/01/07

TOTAL FOR CLASS CODE: 8810 RATE: .55

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

TOTAL FOR CLASS CODE 8833 RATE: 2.05

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

TOTAL FOR CLASS CODE 9040 RATE: 9.67

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



VI. Auditors Easy In - Easy Out Tips

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 if possible



VI. Auditors Easy In - Easy Out Tips

YES NO

- | | | |
|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | 1. Did you get a copy of auditor's worksheets? |
| <input type="checkbox"/> | <input type="checkbox"/> | 2. Was audit conducted at accountant or bookkeeper's office? |
| <input type="checkbox"/> | <input type="checkbox"/> | 3. Did insurance company change your basic classification or reallocate payroll? |
| <input type="checkbox"/> | <input type="checkbox"/> | 4. Does policy contain class codes that are not on audit? |
| <input type="checkbox"/> | <input type="checkbox"/> | 5. Did you verify deposit premium (how much was paid in)? |
| <input type="checkbox"/> | <input type="checkbox"/> | 6. Was your experience modification increased during policy period? |
| <input type="checkbox"/> | <input type="checkbox"/> | 7. Were charges made for uninsured subcontractors or owner-operators? |
| <input type="checkbox"/> | <input type="checkbox"/> | 8. Does audit include a charge for paid commissions? |
| <input type="checkbox"/> | <input type="checkbox"/> | 9. Did you receive a large additional or return premium? (you may be entitled to more). |
| <input type="checkbox"/> | <input type="checkbox"/> | 10. Did your state implement a rate change? |
| <input type="checkbox"/> | <input type="checkbox"/> | 11. Were credits on last year's policy removed from current policy? |
| <input type="checkbox"/> | <input type="checkbox"/> | 12. 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"/> | 13. Was your policy canceled or rewritten with a different effective date? |
| <input type="checkbox"/> | <input type="checkbox"/> | 14. If you are an executive officer of the corporation, were your wages assigned to a high rated classification? |
| <input type="checkbox"/> | <input type="checkbox"/> | 15. Do audit dates and policy dates much? |
| <input type="checkbox"/> | <input type="checkbox"/> | 16. Does policy contain a Residual Market or Assigned Risk Surcharge? |
| <input type="checkbox"/> | <input type="checkbox"/> | 17. Were you awarded any contracts under Davis-Bacon Act? |
| <input type="checkbox"/> | <input type="checkbox"/> | 18. Is Anniversary Rating Date different from policy's effective date? |
| <input type="checkbox"/> | <input type="checkbox"/> | 19. Did you verify math is accurate? |
| <input type="checkbox"/> | <input type="checkbox"/> | 20. Did you review your physical operations to see if a minor facility change would allow reclassifying employees to take advantage of lower rate? |
| <input type="checkbox"/> | <input type="checkbox"/> | 21. Are you absolutely certain you were not overcharged on your audit? |

(Just after policy expiration and before auditor arrives, prepare a test audit)

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

