

1. Why am I being audited?

Audits are routinely conducted to verify the operations of the insured and to update policy information such as changes in operations, business locations, and new ownership. Audits are conducted to determine correct premium, and to confirm information used for calculating rates. Premium, experience modification, and classification rates are affected by the results of an audit.

2. What if I have questions regarding my workers' compensation classifications?

The audit is an excellent opportunity to review and confirm proper classifications for the policy. The auditor will speak with the person who is best able to answer questions regarding your operations.

3. What records will I be asked to provide for the audit?

In general, you will be asked to provide State Quarterly Wage and Withholding Reports such as DES forms, 941 reports, payroll journals for the period being audited.

Since the information needed for each audit may differ, you may also be asked to provide other records that relate to your workers' compensation policy. Examples include: payroll registers, time books, time cards, individual earnings records, check registers, check stubs, check books, cash disbursement journal, cash book, petty cash book, general or subsidiary ledgers, job cost records, confidential records, bonus ledgers, commission ledgers, profit sharing reports, 941s, W-2s, W-3s, 1096s, 1099s-Misc., 540, 1040 Schedule C, certified payroll, prevailing wage determination sheets, etc.

4. What type of wages and benefits are subject to premium?

Subject to Premium:

Premium calculations are based on gross payroll, not net payroll. Gross wages include salaries, commissions, bonuses, vacation, holiday pay, sick pay, overtime base wages, the market value of gifts, all substitutes for money earned or paid during the policy period including meals and lodging in lieu of wages, automobile allowances, and some pension plan payments explained below.

Not Subject to Premium:

Payroll for officers specifically excluded from coverage under the policy, overtime excess (explained later), tips, severance pay, the value of an automobile furnished to an employee, reimbursement for expenses with receipts, and salary reductions to fund the welfare or fringe benefit portion of a Section 125 cafeteria plan.

Retirement/Pension Plans-Subject to Premium:

Any amount by which an employee's salary is reduced to fund a pension or deferred compensation plan.

Retirement/Pension Plans-Not Subject to Premium:

Employer contributory payments including group insurance, stock purchase plans and qualified retirement plans. The exercise of stock options and withdrawals from deferred compensation plans are also not subject to premium computation.

What if I pay my employees in cash?

If you pay your employees in cash instead of by payroll checks, you must keep a log of the cash payments, the hours worked, the date paid, the amount paid, and the first and last name of the employee. Otherwise, all cash withdrawals on your check register will be included in computing workers' compensation premium.

5. Which employees qualify as clerical (code 8810)?

The use of this classification is subject to specific restrictions. The clerical employees must be physically separated from all the other working areas and their duties must be confined to general office work. Payroll division with any other class is prohibited.

6. Which employees qualify as outside sales (code 8742)?

Outside sales employees may be engaged in solicitation, collection activities or meeting with clients outside the office. The balance of their time can be spent in the office performing clerical duties. If they have duties of any other nature, they would be classified accordingly. Payroll division with any other class is prohibited.

The auditor will ask for the names, job titles, and payroll for clerical and outside sales employees. Having this information available before the auditor arrives will save time(see enclosed log sheet)

7. How do I report the earnings of our corporate officers, partners, or managing members of limited liability companies?

Unless specifically excluded by endorsement, officers, partners, or member managers are covered for workers' compensation benefits. Payroll is reported subject to a minimum and maximum for each person. The back of your payroll report lists the minimum and maximum payroll amounts for the most recent years.

Those covered must be reported in the classification that best describes their job duties. They cannot be reported as clerical or outside sales unless their duties are confined to the work described in these classes. If they directly supervise any employee, they must be reported in the classification supervised.

Be sure to notify our agency immediately of any changes in ownership.

8. Are sub-contractors subject to premium?

True independent contractor payments are not subject to premium. Independent contractor status is determined on a case-by-case basis.

If you use contractors, you will be asked to supply some or all of the following: business name, business license, copy of contract, Certificate of Workers' Compensation Insurance, and contractor's license number. If a construction contractor has a valid California contractors' license, a valid Certificate of Workers' Compensation Insurance (if the contractor has employees), or an exemption from workers' compensation issued by the Contractor's State License Board, he/she may be considered independent.

You MUST Keep license information and Certificates of Insurance on file or you will pay additional premium charges.

9. Why are there two classifications for some construction classifications?

Some construction classifications are dual wage classifications. The employee's base hourly wage rate determines which class code applies. These wage rates are subject to verification at the time of the audit through a valid source, such as time cards, personnel records, and employee earning records. Keeping records that clearly show hours, job duties, and wage rates will allow you to take advantage of the lower-rated dual class.

If are paying your employees by piecework, you must keep a record of the number of hours worked for each employee to qualify for the lower-rated dual class. If you do not keep a time log of the hours worked, the auditor will divide the total payroll by 40 hours per week to determine an hourly wage rate.

10. If my employees divide their time between different job assignments, can I divide their payroll between different classifications?

It depends on the classifications. It is important to note that in the case of clerical and outside sales employees, there is no payroll division allowed. There are other class codes that prohibit payroll division as well. If your employee divides time between two or more class codes that allow for payroll division, then you can divide their payroll provided the proper records are kept. This may include time cards or an employee log that keeps track of the hours worked by each employee for each job duty.

Payrol may not be divided by means of percentages, averages, estimates, or any basis other than specific time records.

11. What is overtime excess and how do I report it?

That portion of an employee's overtime wage, which is over and above, the regular rate of pay is called overtime excess. This includes increased pay for time worked on holidays, Saturdays or Sundays, or the number of hours worked in any week or day beyond the standard for the industry. Overtime excess does not include extra pay for swing or graveyard shifts, for working certain hours on the clock, or incentive or bonus pay figured on volume without regard to hours worked.

Example: If your employee's hour wage is \$10 and the overtime rate of pay is \$15 (at time-and-a-half), the overtime excess would be \$5. In this example, you pay premium on the \$10. An easy way to calculate the overtime excess for the time-and-a-half is to divide the gross overtime by 3 (\$15 Divided by 3 = \$5)

12. What is a waiver of subrogation and how do I report it?

If you contract with a company that requires you to provide a waiver of subrogation on your workers' compensation policy, you waive any right to a third party settlement for injuries to your employees that occur on that company's job site.

When you have a waiver of subrogation for one or more companies endorsed to your policy, you need to keep track of employee payroll incurred while on the job site of those companies.

You can report your waiver payroll in two ways. First, when completing payroll reports (if applicable), you may use the blank lines below the class codes and list the waiver by class codes. For each class code that has waiver payroll, you would multiply the total waiver payroll by your billing rate and the waiver percentage . This amount is the additional premium you must

pay. The second way is to keep the records as noted and wait for the audit.

Example: Your premium for \$10,000 at an interim billing rate of \$5 per \$100 payroll is \$500. Multiply the premium of \$500 by the waiver rate of 3%. The additional premium charge to cover the waiver of subrogation charge is \$15. Your total premium charge including the waiver is, \$515

13. Are payments made to family members subject to premium?

Yes, as employees they are entitled to workers' compensation benefits.

Special rules apply to family members living in the main household while working on a family-owned farm.

14. What happens after the audit is completed?

You may ask for a copy of the audit upon completion. Once complete, the audit is reviewed. The results of the audit will be sent to you in the form of a final statement.

What happens if I disagree with the results of the audit?

Identify the areas of the disagreement and discuss them with us and the auditor. You may be asked to supply additional documentation to verify the discrepancy. Please call us and the audit supervisor if the matter remains unsolved.

15. Keeping complete and accurate payroll records is very important and may save premium dollars

We hope the answers to the commonly asked questions help clarify the audit process.