



# HOW TO PREPARE FOR YOUR INSURANCE AUDIT

---

Helpful tips to help you compile the necessary information,  
without getting frustrated.

This guide will help you collect the necessary documentation and statistics required during a payroll audit. Because of the nature of the required information, it is recommended that this guide be completed by the accounting department or someone in your company familiar with payroll and job duties.

This document can be used with the workers compensation audit payroll workbook.

In many cases, the letter that arrives from either the insurance carrier or their third party audit services can seem daunting. The request may ask for sensitive financial data that your company may not feel comfortable providing. It is a requirement of the insurance policy to be audited, but there are a variety of ways that verified information can be provided. It's always best to work with your agent if you have questions or concerns.

Our recommendation is to always break out the information for the auditor by job duty and description and total it out to match the quarterly 941's.

## **STEP 1: COLLECT THE NECESSARY MATERIALS**

- Payroll records (employee specific)
- Unemployment tax returns
- Form 1040 Schedule C (if sole proprietor)
- Tax reports (Federal Payroll 940s or 941s)
- General ledger, subcontractor ledgers and journal (or 1099s)
- Certificates of insurance for subcontractors
- Workers' compensation (WC) insurance policy
- Employee information
- Corporate officer information
- Audit package totals
- Subcontractor information
- Certificates of insurance for each subcontractor
- Additional materials upon auditor request

## **STEP 2: EMPLOYEE INFORMATION**

Record the payroll information and classification of all employees except corporate officers. Class codes generally define the business and not the employees, with the exception of standard class exceptions (e.g., clerical, outside sales, other certain sales). This is a large potential problem area—if your business has a large WC rate, but you can put some of your employees in a standard class exception (like clerical), you can drastically lower premium to pay. It is important to be careful here. For example if your company a manufacturer with a clerical and sales department. If Sally who is in clerical also does 2 hours of janitorial work, the rules will assign her to the manufacturing class.

Note: A portion of overtime can be subtracted from the total gross payroll. For example, if your firm pays time-and-a-half, you can take the total gross overtime amount paid and subtract .33 percent of that number from the total amount paid over a given year. This number counts as an excluded remuneration, which is further instructions in Step 4.

### STEP 3: CORPORATE OFFICER INFORMATION

In many states, officers have the option to remove themselves from coverage. States also have a maximum coverage, which needs to be located. Certain states, rather than a max, represent corporate officers as all earning the same (i.e. for workers' compensation purposes they are all compensated \$50,000).

### STEP 4: EXCLUDED REMUNERATIONS

Excluded remunerations vary from state to state so the list below may not be accurate for your location. Determine a complete list for your state by asking your agent, ratings bureau or insurance provider.

- Tips and other gratuities received by employees
- Payments by employer to group insurance plans
- The value of special rewards for individual invention or discovery
- Severance payments, except for time worked or accrued vacation
- Payment for active military duty for reservists called to active duty
- Employee discounts on goods, property, or services purchased from the employer
- Expense reimbursements to employees for legitimate business expenses (requires some record or receipt)
- The value of an employer-provided vehicle (e.g., a car or airplane)
- The value of an incentive vacation (for example, a sales leader might win a vacation)
- The value of a ticket to an entertainment event that is provided by the employer
- Supper money for late work
- Work uniform allowances

“Time-and-a-half” overtime is included as one of the columns under Employee Information. Overtime is therefore not listed above, but you will need to add it if your company determines overtime pay using a different—or multiple—calculation.

If the payroll amounts you entered under Employee Information or Corporate Officer Information include any of the following types of payments, then total such payments by employee and enter these values in the Excluded Remunerations column under Employee Information or Corporate Officer Information, as appropriate.

### STEP 5: AUDIT PACKAGE TOTALS

Review the information you compiled in Steps 2 through 4, checking to make sure all areas have been addressed and all figures are correct. Organize the information in a list arranged by class code. Include payroll information along with any excluded remunerations that apply.

## STEP 6: SUBCONTRACTOR

You'll want to obtain certificates of insurance for all subcontractors. Those who have work comp may be excluded from the payroll audit, while those who do not have workers compensation may be included depending upon your states rules.

The workbook is only for subcontractors that do not have workers' compensation of their own. Be sure to capture only the cost of payroll for the contract—as opposed to total quarterly cost of the contract—in order to prevent overpayment.

## STEP 7: VERIFY THE AUDIT AFTER COMPLETE

It is a recommended practice that after you receive the final documents from the insurance company, you compare them to the original submission. The reality is that auditors have lots of files and can make mistakes. It happens all the time. Perhaps people are misclassified, payroll was added incorrectly, or overtime wasn't excluded.

It's okay to go back and challenge the audit if you feel it's inaccurate. Contact your agent for assistance.