

CA Workers' Compensation Audit FAQs

At Arrowhead, we are committed to ensuring a seamless audit experience. Proper preparation throughout the policy term allows for accurate premium reporting, ensuring that premiums correspond correctly to the exposures. This proactive approach facilitates a smoother audit process and helps prevent unexpected adjustments.

To assist you, we have compiled a list of frequently asked questions (FAQs) that address common concerns and provide guidance on best practices. We hope these will be helpful.

WHAT IS A PAYROLL AUDIT?

An auditor's examination of the policyholder's relevant records to determine the correct premium is paid for the correct exposures on a workers' compensation policy.

WHO IS AUDITED?

We audit all workers' compensation policies annually, even if the policy is cancelled or current coverage has been moved to another carrier.

WHAT GIVES THE CARRIER THE RIGHT TO EXAMINE MY RECORDS AND PERFORM AN AUDIT?

This provision is outlined in the policy contract on page 5, section G and states in part, "You will let us examine and audit all your records that relate to this policy. These records include ledgers, journals, registers, vouchers, contracts, tax reports, payroll and disbursement records, and programs for storing and retrieving data."

WHERE IS THE AUDIT PERFORMED?

The audit may be performed at your business or remotely. When performed remotely, you will be asked to upload the necessary documents into a secure portal for review by an auditor.

Note, once records are received, a principal in the business will be interviewed to go over the operations, job duties, ownership, address any changes, and answer any questions regarding the records that may have come up during the review. Please be sure to set aside the time for this process. It is an essential part of completing the audit.

WHAT IF I DO NOT COMPLY WITH THE AUDIT?

- If there is current coverage in place, that policy will be cancelled for "non-compliance of audit".
- The audit will be treated as "non-productive" and the bill will be estimated at up to 300% of the original estimated premium. This is a collectable bill.
- The policyholder's experience modification will be negatively impacted.

WHAT IS INCLUDED FOR PREMIUM CALCULATION ON THE AUDIT?

All money earned and all substitutes for money earned during the policy period by employees and officers of the employer, and any other persons for whom voluntary coverage is provided under the policy, including gross wages, salaries, commissions, bonuses, overtime payments, the market value of gifts, and vacation, holiday and sick pay.

WHAT CAN BE EXCLUDED FROM PREMIUM CALCULATION ON THE AUDIT?

- Owners excluded on the policy either by endorsement or labor code
- Meals and Lodging (if not in lieu of wages and permitted in the class code)
- Overtime excess (only straight time is included if proper records are maintained)
- Verifiable tips
- Severance pay
- Employer contributions payments (such as for 401K or employee stock purchase plans)
- Approved Cafeteria benefit plans or Section 125
- Volunteers for a non-profit ONLY
- Back wages (if being paid for a period outside the audit period)

WHAT RECORDS ARE NEEDED FOR AN AUDIT?

- 941s, DE-9s and DE-9Cs (all pages). **This is used to reconcile your payroll records.**
- Payroll records that include employees' names, check dates and gross wages.
- To receive credit for overtime excess and qualified Sec 125, we need to see summarized records by employee.
- To be able to use high wage, dual wage class codes in the audit, please have samples of compliant timecards available that can be reconciled to payroll records to verify hourly rate of pay or collective bargaining agreement for any union jobs.
- Provide a list of any dual wage employees who received a pay increase during the audit period (this could have an impact on their assigned class code).
- If you have construction employees using more than one construction class code, please have summaries of the segregation by employee and class code supported by original timecards.
- General Ledger and chart of accounts or equivalent source (Profit & Loss Statement, trail balance, business check register) **to verify if there are any exposures outside of payroll and that any subcontractors used were properly licensed and insured.**
- A list of all employees with their names, job titles and brief description of duties.
- A list of all subcontractors, casual labor and cash labor used. If they are licensed and/or insured please have their license and certificate of workers' compensation available.
- If you had any OCIP (Owner Controlled Insurance Policy) or CCIP (Contractor Controlled Insurance Policy) jobs, please have the proper workers' compensation certificate of insurance and the payroll records reported for the OCIP job.
- If you had a **specific** waiver of subrogation, please provide the payroll for that job.
- **The monthly reports you submit with your premium payment cannot be used for the audit.**

WHAT ARE COMMON MISTAKES FOUND AT TIME OF AUDIT?

- **Employees misclassified.** If you are not sure you are using a class code correctly or you have started a new operation, please contact your underwriter for guidance.
- **Out-of-state exposures found with no coverage in place.** If your employee(s) travel or live outside of CA, you must check with your underwriter to see if your CA policy can be endorsed for this exposure or if an additional policy can be written, as the CA coverage may not extend to other states.
- **Uninsured and or unlicensed subcontractors included for premium calculation.** If you use a subcontractor, be sure to check that any necessary license is valid and under their name, and they have a certificate of workers compensation where applicable.
- **Casual Labor.** Day laborers or casual labor used regardless of how much they are paid or their skill level will be included for premium calculation.
- **Employees paid both on payroll and a 1099.** All wages (from payroll and 1099) will be included for premium calculation.
- **CASH wages.** All cash wages found, including those paid electronically through Zelle, Venmo, or any similar application, will be included for premium calculation.
- **Owners may be included** when we were not notified about changes in ownership and we do not have the proper exclusion letters as required (no backdating is permitted).
- **Auditor is required to use the low wage/dual wage class code** because compliant timecards were not maintained and/or no collective bargaining agreement was provided. See rule below:

For all employees, other than salaried employees, determination of the regular hourly wage must be supported by one of the following sources:

a. Original timecards or time book entries for each employee. Original records must include the operations performed, the total hours worked each day and the times the employee started and ended each work period throughout the workday. At job locations where all of the employer's operations cease for a uniform unpaid meal period, recording the start and stop times of the uniform break period is not required.

b. A valid collective bargaining agreement that shows the regular hourly wage rate by job classification of worker. If using a collective bargaining agreement, the records must include an employee roster by job classification that permits the reconciliation of individual employees to the job classifications set forth in the collective bargaining agreement.

For all employees, other than salaried employees, the payroll for which an hourly wage determination cannot be reconciled to timecards or time book entries or collective bargaining agreements as specified above shall not be assigned to a classification that requires the regular hourly wage to equal or exceed a specified amount.

For the purpose of administering this rule, a salaried employee is an employee who is remunerated at an established level of compensation on a weekly, monthly, or annual basis, without regard to hours worked, sales volume, production levels or similar variables. (In addition to a base salary, salaried employees may also receive bonuses or commissions.)

- **Temporary employees included** because valid workers' compensation was not in place to cover these employees.
- **OCIP or CCIP payroll had to be included.** In order to deduct the OCIP or CCIP wages, the auditor must be provided with a valid certificate of workers' compensation for the OCIP or CCIP job during the audit period, along with the payroll records that were submitted to the General Contractor on that job.

WHAT HAPPENS AFTER THE AUDIT IS COMPLETED?

The audit will be reviewed and the audited payroll will be compared to what was reported or estimated (depending on the payment method setup). This comparison determines if the final audit invoice will be additional premium due or return premium.

HOW DO I GET A COPY OF THE AUDIT WORKSHEETS?

Email WCAudits@ArrowheadGrp.com to request a copy of the audit worksheets which will show the details of the payroll included for premium calculation.

WHAT IF I DO NOT AGREE WITH THE AUDIT FINDINGS?

If you disagree with the audit findings, please have a principal of the business submit a formal letter or email, detailing the specific areas of dispute to WCAudits@ArrowheadGrp.com. Include all relevant supporting documentation to substantiate your position.

Please note that this is a time-sensitive matter. If a valid dispute with supporting documents is not received promptly, collection efforts will proceed based on the current audit findings.

For all other inquiries on the audit process feel free to email WCAudits@ArrowheadGrp.com.