

# How to Prepare for Final Audit

After your policy expires, your insurer will audit your records for the year to determine your actual premiums. When your policy is first set up, your policy premium is based on an estimated exposure. You can prepare for this audit by gathering necessary records and appointing a principal or knowledgeable employee to respond to all the auditor's questions. The insurer will perform a physical, telephone, or voluntary workers' compensation audit depending upon the type and nature of your business operations.

## **FOLLOW THESE HELPFUL TIPS TO AVOID PAYING ADDITIONAL PREMIUM**

### **PROPERLY ESTIMATE ANNUAL PAYROLLS**

Carefully review the classifications and payroll with your agent/broker to be sure employees are classified correctly and annual payroll is accurately estimated. Properly estimated annual payroll reflects that a sufficient deposit collected at policy inception, therefore reducing the chances of an unexpected large bill after final audit.

### **GATHER ALL NECESSARY PAPERWORK FOR THE AUDIT**

#### **Payroll Records for the exact policy period to include:**

- Payroll Journal and Summary (by employee and class code) showing gross payroll and hours worked
- Federal Tax Reports - DE 9s, 941s and 1099s
- Compliant time cards and breakdown of overtime records per employee
- State Unemployment Reports and Individual Earnings Records

#### **Employee Records to include:**

- Detailed explanation of the job duties for each employee
- Number of employees
- If prevailing wage jobs, detailed breakdown of basic rate, fringe benefits and overtime records or certified payroll records
- List of all clerical employees (class code 8810) and outside salespersons (class code 8742) with their job titles and confirmation these employees are physically separated from the other operations

#### **Other records or sources may be requested:**

- Cash disbursement journal, general ledger, check register, sales journal, cash receipts, job cost records and/or contracts
- Payments to subcontractors and independent contractors
- Material costs for subcontractors (if applicable)
- Casual labor payments

#### **Detailed description of your business operations**

## **OBTAIN CERTIFICATES OF INSURANCE FOR SUBCONTRACTORS & INDEPENDENT CONTRACTORS**

You should only contract with licensed and insured subcontractors. Before a subcontractor begins work, confirm they hold a valid contractor's license and require evidence that they have workers' compensation insurance covering their employees with a Certificate of Insurance prepared by their insurance company or agent. Make sure that the certificate applies to coverage in force over the life of your contract. Keep these certificates on file so that you can provide a copy to the auditor at final audit. Without this documentation, these individuals or companies may be considered employees for workers' compensation purposes and maybe included for premium calculations.

### **THIS SECTION ONLY APPLIES TO CONSTRUCTION CLASS CODES**

#### **MAINTAIN PROPER RECORDS FOR PAYROLL SEGREGATION OF CONSTRUCTION CLASS CODES**

Division of payroll shall be made for each separate and distinct type of construction or erection operation that is specifically described by a classification. For documentation to support this, separate records of payroll must be maintained, provided the use of any such classification about a separate job or location is not restricted by classification phraseology or footnotes set forth by the WCIRB or NCCI.

Some operations (at a job or job location) are classified on a divided payroll basis. In this case, the remuneration of any one employee may be divided between two or more classifications. For documentation to support this, you must maintain complete and accurate records supported by original time cards and/or time book entries which show the remuneration earned by such employee(s) separately, both by individual employee and in summary by operations performed.

Operations for which separate records of payroll are not maintained shall be assigned to the highest rated classification applicable to the job or location if payrolls are kept separately by job within the policy period. Otherwise, the highest rated classification shall be assigned based on the entire policy period.

#### **KEEP PROPER RECORDS FOR CONSTRUCTION DUAL WAGE CLASS CODES**

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

1. Original time cards 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 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.
2. A valid collective bargaining agreement that shows the regular hourly wage rate by job classification of worker. 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 time cards 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.