

# The premium audit

All SFM policyholders are audited annually; have records available

Don't get all flustered about your workers' compensation audit. Premium audits are just an insurer's way of making sure that policyholders' premiums are fair and accurate.

## The purpose of a premium audit

The premium your organization is billed at the beginning of a policy year for workers' compensation coverage is actually an estimate. This estimate is calculated using two things: your organization's job classifications and expected payroll.

Classifications are determined by the kinds of jobs your employees perform and reflect different levels of injury risk. There are several hundred job classifications, such as "sales" or "driver."

Your organization's payroll can change throughout the year if your workforce grows or shrinks, employees work overtime, or your organization expands or diversifies operations.

So at the end of the policy year, an audit of the previous 12 months' payroll and job classifications is conducted, and the billed premium is adjusted to reflect any changes. That is the final premium.

The final premium might be more or less than the billed premium. If the premium estimate was too low, the policyholder is charged the balance. If the estimate was too high, the policyholder receives a refund.

## The audit process

Since an audit relies on current and accurate information, you will be asked to have the necessary records available for review. SFM auditors will review these records if they visit your organization in person. You will also need these records if the audit is conducted online, or by mail

or phone.

During a physical audit, the auditor will survey your records and operations. He will also confirm ownership, review your employees' duties to make sure they are properly classified, and check that the payroll has been assigned to the correct job classifications. Finally, the auditor will tell you whether your estimated payroll was high or low.

For an online, mail or phone audit, you will receive a letter with a 'Personal ID' and 'Password' to be used when completing your audit online. The letter will explain how to fill out the form, and instructions on how the information can be submitted, mailed back or called in to SFM's premium audit team.

## How to prepare for your premium audit

At the end of your policy year, you will receive either a postcard or letter. The postcard will indicate the time and date of your physical audit. It is important that you call the auditor if you need to reschedule the appointment. If you get a letter, please complete your audit online or on the paper form with the requested information and return it to SFM in a timely manner.

Here are some ways you can prepare for a premium audit so it goes smoothly:

**1. Have your records ready.** Depending on the nature of your business, some of the following information will be necessary to complete the audit:

- General ledger, financial statements.
- Payroll records, time books, state unemployment returns, FICA returns, individual earnings records including monthly totals separated by type of work and overtime.
- Cash receipts, sales journal.
- Cash disbursements journal including sub-

contractors, casual labor and material costs.

- Certificates of insurance.
- 1099s reported in the most recent 12 months.
- Quarterly State Unemployment forms for Minnesota employers.
- Quarterly 941 reports for Wisconsin employers.

## **2. Make sure your information is correct.**

Accurate, organized records will help the audit run smoothly and eliminate errors that would otherwise have to be corrected later.

**3. Be available to answer questions.** The auditor may need to ask questions about your operations to correctly determine your policy's classification rates. Give the auditor a tour of your facilities, if needed.

## **Other help during your policy term**

SFM's auditors can also assist employers with recordkeeping and job classifications, and can help them estimate payroll for renewal—all of which help make the audit process smoother and easier for employers.

## **Commonly asked questions**

### **Am I liable for subcontractors?**

By law you may be held responsible if an uninsured subcontractor's employee is injured. There are certain statutorily defined situations in which you may also be responsible for a subcontractor's injury.

To protect yourself, get a certificate of workers' compensation insurance from each subcontractor you use. If you cannot show the auditor proof of workers' compensation insurance from each subcontractor, the subcontractor's payroll may be added to your premium base.

### **How are travel expenses calculated?**

Travel expenses, such as room and board, gasoline and automotive expenses, and airfare may be included as part of your total payroll, unless you reimburse employees the actual amount of these expenses and you keep copies of all expense receipts. Then those payments may be excluded from your payroll calculation.

Basically, payments such as per diem or mileage allowances are included as payroll because the actual incurred expenses cannot be determined.

### **How should overtime be documented and calculated?**

Make sure records show overtime in dollars, hours and total per pay period by employee and in summary by classification. When overtime is recorded separately, a portion can be excluded from payroll for workers' compensation purposes.

### **What if we have a change in operations?**

When a change in operations occurs, it is your responsibility to contact your agent, who will notify SFM. A change in operations could require a work classification to be added or deleted from your policy. The rate for the new classification will be given, enabling you to report the payroll and premium under the correct code.

Premium adjustments due to changes in operations not reported to SFM will be made at the time of the audit. Classification changes detected at an audit will be applied on the effective date of the change in operations.

If you have any questions about the audit process, call SFM's Premium Audit Helpline at (952) 838-4345.