

Premium audit

All SFM policyholders are audited; have records available

Every SFM policyholder undergoes a workers' compensation audit at the end of each policy period. Premium audits are 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 period for workers' compensation coverage is actually an estimate. This estimate is calculated using your organization's classification(s) and expected payroll.

Classifications describe the nature of your business and reflect different levels of injury risk.

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.

When a policy period ends, an audit of the past policy period and classification(s) is conducted, and the billed premium is adjusted to reflect any changes.

The final premium might be more or less than the billed premium. If the premium estimate was too low, you are charged additional premium. If the estimate was too high, you are reimbursed the extra premium.

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.

During a physical audit, the auditor will survey

your records and operations. He or she 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 classification(s). Finally, the auditor will tell you whether your estimated payroll was high or low.

For an online audit, you will receive a letter with a personal ID and password to be used when completing your audit online.

For a mail audit, you will receive a letter with instructions on how to complete the paper form and mail it to SFM's premium audit team.

How to prepare for your premium audit

At the end of your policy period, 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 and return it to SFM in a timely manner.

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

Have your records ready

Depending on the nature of your business, some of the following information will be necessary to complete the audit:

- Payroll register or journal. Running year-to-date reports consistent with your policy dates saves you and the auditor time.
- Quarterly tax reports including 941 and state unemployment forms for the quarters within your policy date range.
- Departmental labor distribution report for larger employers.
- Some outside payroll service providers

are going paperless which means you will need to print the needed tax reports and payroll registers from your payroll software program prior to your audit date. Your payroll service provider should be able to help you with this process.

Additional records for construction businesses:

- Cash disbursements journal or business checkbook.
- Workers' compensation certificates of insurance for all subcontractors hired within the policy period.
- Evidence of contractor registration for construction contractors doing business in Minnesota.
- Form 1096 and attached 1099 statements for the most recent calendar year.

Be available to answer questions

The auditor may need to ask questions about your operations to correctly determine your business classification(s). Give the auditor a tour of your facilities, if needed.

Other help during your policy term

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

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.

Effective Sept. 15, 2012, Minnesota building contractors are required to register with the state and still need to verify independent contractor status for workers' compensation purposes.

How should overtime be documented and calculated?

Make sure records show overtime in dollars 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 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 or (800) 937-1181.