

TRIPLE CHECK PAYROLL

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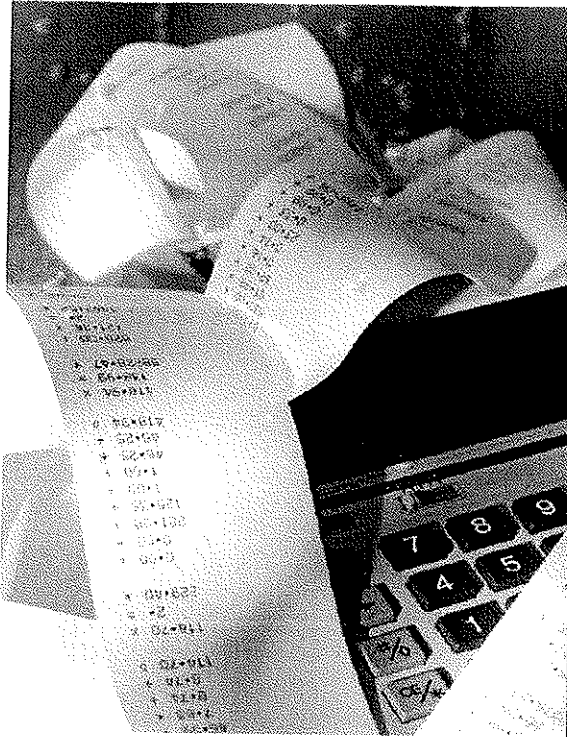
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Workers' Compensation Payroll Audit Preparation Guide

Prepared for:

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Fighting Workers' Compensation Overcharges

Lack of Attention

Workers' Compensation costs are a major expense item for most businesses today. Although most businesses focus on claims handling and loss prevention to reduce costs for this mandated coverage, there is very little available about the premium audit function.

Since your final Workers' Compensation cost is determined at policy expiration with a review of your payroll records, it is essential you're prepared for the final audit and that the audit be conducted properly. Prepare properly and most likely you will legally prevent the insurance company from overcharging you.

When your insurance policy first goes into effect, your premium is based on assigned classifications, estimated payrolls (referred to as remuneration) and an experience modification factor. At the policy's expiration, the insurance company conducts a payroll audit and converts estimated payrolls into actual payrolls and assigns those payrolls to a classification.

When You Don't Make the Rules, It's Hard to Win the Game

Your insurance company designed the audit process so that when mistakes are made, (and mistakes are common) you will automatically be overcharged.

Our goal is to assist with a step-by-step process to guarantee you will never be overcharged on your Workers' Compensation premium audit.

A Few Words About the Auditor

Premium Auditors, like all insurance company personnel, are driven by two opposing goals. The first is to maximize your premium. Some examples of maximizing premiums include:

- Assigning payrolls to highest rated classifications.
- Charging for commissions without deducting expenses
- Charging for subcontractors who are separately insured
- Overlooking deductions such as overtime
- Not informing you of how you should keep your record to minimize your costs

Running counter to the Auditor's efforts to maximize your costs is the desire to push work across their desks as quickly, (and, in more than a few cases, as effortlessly) as possible. At most insurance companies, when an auditor receives your file, the clock starts running.

Typically, insurance companies require 70 to 80% of audits to be completed within 30 days of assignment. Those not completed within this time frame are labeled as "delinquent." An auditor's performance is measured as much by "delinquent list" as the quality of his audits.

Knowing the time constraints under which the auditor works can be helpful. The Institute of WorkComp Professionals has found that efforts to make the auditor's job easier can be rewarded by more favorable audits.

How Should You Prepare for an Audit

First, create your own audit package. When you compile the information needed and then present it in a format the auditor is familiar with, you will:

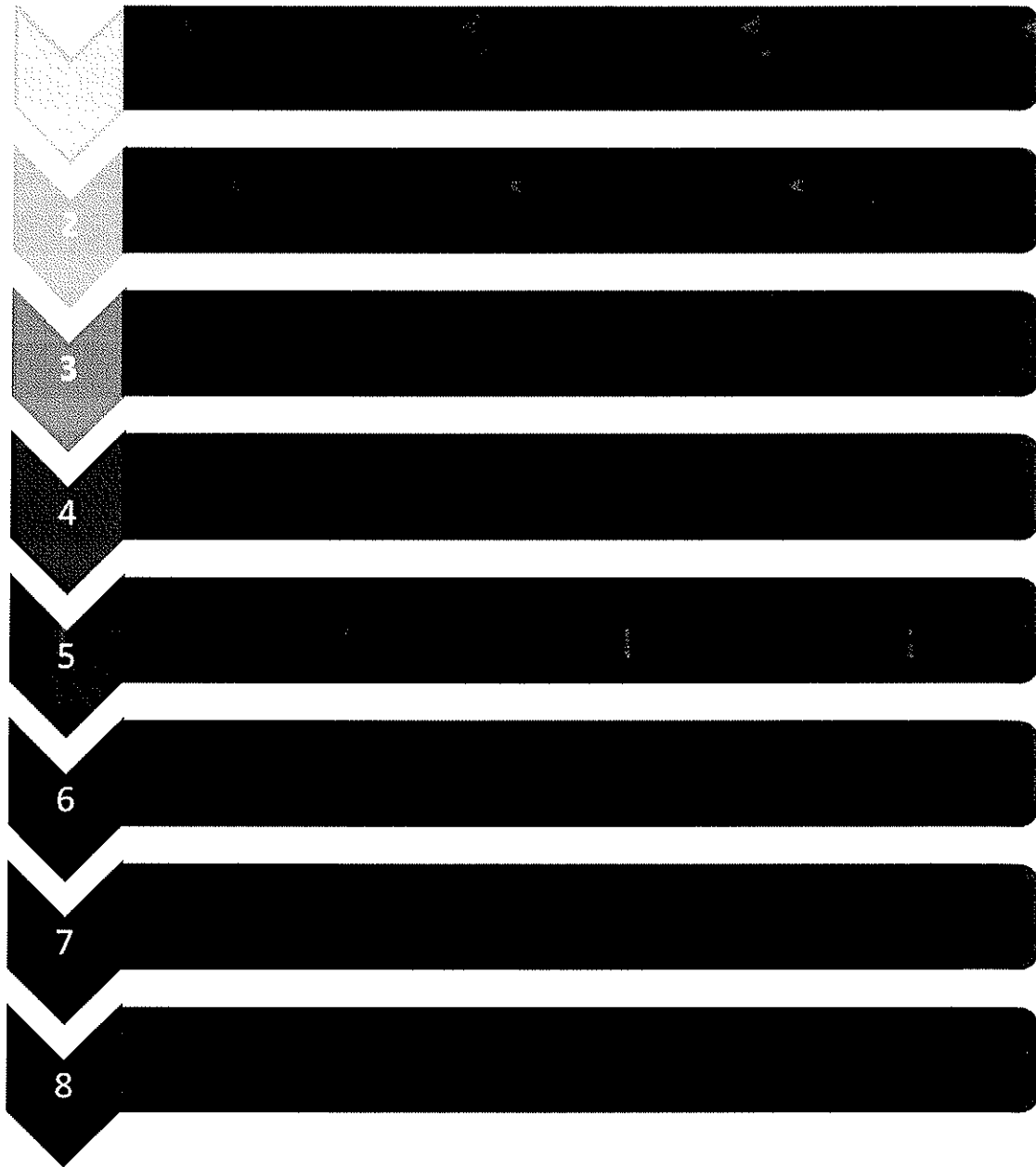
- Simplify the auditor's job
- Reduce probing questions
- Know beforehand what to expect
- Control the data the auditor observes
- Help manage the ultimate cost of your workers' compensation insurance

It is important to remember that the more detail you provide to support the audit, the better. Detail not only makes data more reliable, it makes the auditor look better in the eyes of his or her supervisor. Many auditors will even accept a well-documented audit as their own.

Our job is to help you prepare the *Mistake-Free No Overcharge* premium audit.

Typical Audit Process

INHERENTLY WORKS TO YOUR DISADVANTAGE!



Classifications

Classify the Business:

Classifications relate to your business

Do NOT Classify Individual Duties:

Classifications DO NOT relate to the separate employment, occupations, or duties of individual employees in your business.

Exceptions:

- **Construction and Agriculture: Separation of payroll is allowed.**
- **Clerical, Outside Sales and Drivers may be specific for your state.**

Build an Overcharge-Proof Premium Audit Package



Excluded Remuneration

Do Not Include Remuneration for:

Overtime
Tips or other gratuities received by employees
Your payments to group insurance or group pension plans for employees, other than those covered by Rule 2-B-1-f and Rule 2-B-1-m
Your payments into third-party trusts for the Davis-Bacon Act or a similar prevailing wage law provided the pension trust is qualified under IRC Sections 401(a) and 501(a)
The value of special rewards for individual invention or discovery
Dismissal or severance payments except for time worked or vacation accrued
Payments for active military duty
Discounts on goods employees purchased from you
Expense reimbursements to employees, to the extent that your records confirm that the expense was incurred as a valid business expense
<p>You may exclude from audit reimbursed expenses and flat expense allowances (except for hand or hand-held power tools) you paid to employees only if all three of the following conditions are met:</p> <ol style="list-style-type: none"> 1. The expenses are incurred for your business 2. The amount of each employee's expense payments or allowances are shown separately in your records 3. The amount of each employee's expense reimbursement is a fair estimate of the actual expenses incurred by the employee in the conduct of his/her work <p>Note: <i>When it can be verified that the employee was away from home overnight on your business, but the employee did not maintain verifiable receipts for incurred expenses, a reasonable expense allowance, limited to a maximum of \$30 per day, is permitted.</i></p>
Supper money for late work
Work uniform allowances

Sick pay paid to an employee by a third party such as an insured' group insurance carrier that is paying disability income benefits to a disabled employee

Employer-provided perks such as:

1. Use of company-provided automobiles
2. Airplane flights
3. Incentive vacations (e.g., contest winners)
4. Discounts on property or services
5. Club memberships
6. (6) Tickets to entertainment events

Your contributions to employee benefit plans such as:

1. Employee savings plans
2. Retirement plans
3. Cafeteria plans (IRC 125)

Uninsured SubContractors

For all insured contractors, copy certificates of insurance. Confirm the period of the audit is included in the coverage period.

For all uninsured subcontractors, ask the sub to break out the cost of the materials for the job. That amount can be excluded.

THE RULE: (Additional Rules: AZ, ME) (Exceptions: CO, MO, UT)

1. In those states where workers compensation laws provide that a contractor is responsible for the payment of compensation benefits to employees of its uninsured subcontractors, the contractor must furnish satisfactory evidence that the subcontractor has workers compensation insurance in force covering the work performed for the contractor. The following documents may be used to provide satisfactory evidence:
 - Certificate of Insurance for the subcontractor's workers' compensation policy
 - Certificate of Exemption
 - Copy of the subcontractor's workers' compensation policy

2. For each subcontractor not providing such evidence of workers compensation insurance, additional premium must be charged on the contractor's policy for the uninsured subcontractor's employees according to Subcontractor Table 1 and 2 below.

Subcontractor Table 1

(Exceptions: FL, TN)

If the contractor has not furnished evidence of workers compensation insurance and . . .	Then to calculate the additional premium . . .
Furnishes complete payroll records of the subcontractor's employees . . .	Use the payroll detailed in the records
Does not furnish complete payroll records and the subcontract price does not reflect a definite payroll amount . . .	Use the full subcontract price of the work performed during the policy period by the subcontractor as payroll
Does not furnish complete payroll records, but documentation of a specific job discloses that a definite amount of the subcontract price represents payroll . . .	Use the payroll amount indicated by the documentation as the payroll, subject to the minimums in Subcontractor Table 2 below

Subcontractor Table 2

(Exceptions: FL, TN)

If the job involves:	Then the minimum to calculate additional premium is:
Mobile equipment with operators (such as but not limited to earth movers, graders, bulldozers, or log skidders)	Not less than 33 1/3% of the subcontract price
Labor and material	Not less than 50% of the subcontract price
Labor only	Not less than 90% of the subcontract price
Piecework	Not less than 100% of the subcontract price (The entire amount paid to pieceworkers must be the payroll.)

3. Vehicles with drivers, chauffeurs, messengers, or helpers entitled to benefits under workers compensation insurance law may be engaged under verbal or written contract. The amount used to calculate the premium is determined in the following manner:

Subcontractor Table 3

(Exceptions: GA, LA, OR, MO, MN, RI)

If the owner of such vehicles has not furnished evidence of workers compensation insurance and . . .	Then . . .
Payroll can be obtained	The total payroll of these drivers must be included as payroll of the insured employer that contracted for the vehicles.
Payroll cannot be obtained or the driver is an owner-operator and does not receive a set payroll	1/3 of the total contract price for the vehicles must be included as payroll of the drivers.
The contract price does not include the cost of fuel, maintenance, or other services provided to the owner or the owner-operator of a vehicle under contract	The value of these goods and services must be added to the contract price before determining the 1/3 amount.

4. In all cases, the payroll determined for subcontractors is assigned to the classification that would have applied if the individuals had been employees of the contractor.
5. In all cases, if an experience modification has been established for the contractor, this experience modification must be applied to the premium developed for the uninsured subcontractor.

SAMPLE AUDIT PACKAGE SUMMARY WORKSHEET**Workers' Compensation Audit 01/01/09 – 01/01/10****TOTAL FOR CLASS CODE: 8810 RATE: .55**

1 st Quarter	\$ 233,045.00	
2 nd Quarter	196,442.10	
3 rd Quarter	237,294.17	
4 th Quarter	213,720.72	
Total Payroll	\$ 880,501.99	
Excluded Remuneration Adjustment	(7,307.63)	
Adjusted Payroll	\$ 873,194.36	
Premium		\$4,802.57

TOTAL FOR CLASS CODE 8833 RATE: 2.05

1 st Quarter	\$1,110,359.10	
2 nd Quarter	890,109.12	
3 rd Quarter	1,010,351.84	
4 th Quarter	851,774.52	
Total Payroll	\$3,862,504.58	
Excluded Remuneration Adjustment	(58,408.51)	
Adjusted Payroll	\$3,804,096.07	
Premium		\$77,983.97

TOTAL FOR CLASS CODE 9040 RATE: 9.67

1 st Quarter	\$ 88,722.81	
2 nd Quarter	79,026.13	
3 rd Quarter	98,407.15	
4 th Quarter	84,718.67	
Total Payroll	\$ 350,874.76	
Excluded Remuneration Adjustment	(5,428.83)	
Adjusted Payroll	\$ 345,445.93	
Premium		\$33,404.62

OVERCHARGE-PROOF CHECKLIST

Yes No

<input type="checkbox"/>	<input type="checkbox"/>	1. Did you get a copy of auditor's worksheets?
<input type="checkbox"/>	<input type="checkbox"/>	2. Was audit conducted at accountant or bookkeeper's office?
<input type="checkbox"/>	<input type="checkbox"/>	3. Did insurance company change your basic classification or reallocate payroll?
<input type="checkbox"/>	<input type="checkbox"/>	4. Does policy contain class codes that are not on audit?
<input type="checkbox"/>	<input type="checkbox"/>	5. Did you verify deposit premium (how much was paid in)?
<input type="checkbox"/>	<input type="checkbox"/>	6. Was your experience modification increased during policy period?
<input type="checkbox"/>	<input type="checkbox"/>	7. Were charges made for uninsured subcontractors or owner-operators?
<input type="checkbox"/>	<input type="checkbox"/>	8. Does audit include a charge for paid commissions?
<input type="checkbox"/>	<input type="checkbox"/>	9. Did you receive a large additional or return premium? (you may be entitled to more).
<input type="checkbox"/>	<input type="checkbox"/>	10. Did your state implement a rate change?
<input type="checkbox"/>	<input type="checkbox"/>	11. Were credits on last year's policy removed from current policy?
<input type="checkbox"/>	<input type="checkbox"/>	12. Are you a contractor involved in several types of work but not all of them are shown on your policy?
<input type="checkbox"/>	<input type="checkbox"/>	13. Was your policy cancelled or rewritten with a different effective date?
<input type="checkbox"/>	<input type="checkbox"/>	14. If you are an executive officer of the corporation, were your wages assigned to a high rated classification?
<input type="checkbox"/>	<input type="checkbox"/>	15. Do audit dates and policy dates much?
<input type="checkbox"/>	<input type="checkbox"/>	16. Does policy contain a Residual Market or Assigned Risk Surcharge?
<input type="checkbox"/>	<input type="checkbox"/>	17. Were you awarded any contracts under Davis-Bacon Act?
<input type="checkbox"/>	<input type="checkbox"/>	18. Is Anniversary Rating Date different from policy's effective date?
<input type="checkbox"/>	<input type="checkbox"/>	19. Did you verify math is accurate?
<input type="checkbox"/>	<input type="checkbox"/>	20. Did you review your physical operations to see if a minor facility change would allow reclassifying employees to take advantage of lower rate?
<input type="checkbox"/>	<input type="checkbox"/>	21. Are you absolutely certain you were not overcharged on your audit?

(Just after policy expiration and before auditor arrives, have an "overcharge-proof audit prepared.)

If you checked "yes" or are unsure of any answers, please call so we can review before the audit takes place.

Points to Remember

✓ **Points to Remember**

- Assign knowledgeable, friendly staff person to work with the auditor.
- Treat auditor as a welcomed guest – provide a clean, well-lit workspace.
- Present Auditor with your Premium Audit Package:
 - Summary worksheet
 - Copies of payroll report
 - Copy of payroll tax returns (941, NYS-45-ATT, W-4-B)
 - Copies of certificates of insurance
 - Contracts with bills/invoices showing breakout of materials
 - Cash book/check book/general ledger
- Offer no information unless Auditor asks for it.
- Escort Auditor if Auditor asks to tour facilities.
- Schedule Audit for Friday afternoon.
- Wear appropriate attire:
 - Clerical people in clerical attire, etc.