Workers' Compensation Premium Audit

Preparation Checklist & Documentation Guide

FIRST UNDERWRITERS
Insurance Brokers

Company: _____ **Policy Period:** _____ to _____ **Audit Date:** _____

1. Payroll Records

Primary documentation auditors use to verify total gross payroll

- ☐ Federal 941 quarterly payroll tax returns for entire policy period
- ☐ State unemployment tax returns (SUTA) for entire policy period
- ☐ W-3 transmittal (summary of all W-2s issued for the period)
- ☐ Payroll journals or registers showing individual employee payroll
- ☐ Year-end payroll summary by employee with classification assignments
- ☐ Payroll records showing overtime hours and amounts (straight-time vs. premium)

★ *Overtime premium exclusion: Only the extra "half" of time-and-a-half pay is excluded — the base rate on all hours is always included in remuneration.*

2. Employee Classification Documentation

Supports proper assignment of workers to classification codes

- ☐ Current employee roster with names, job titles, and departments
- ☐ Written job descriptions reflecting actual duties performed (not just titles)
- ☐ Organizational chart showing reporting structure
- ☐ Documentation of physical separation for clerical employees (Code 8810)
- ☐ Records of any employees who work in multiple classifications (time/duty split)

★ *Clerical classification (Code 8810) requires BOTH physical separation from operations AND exclusive clerical duties. Any operational exposure — even occasional — disqualifies an employee from the clerical class.*

3. Subcontractor & Independent Contractor Records

Uninsured subcontractor payments are treated as payroll — documentation is critical

- [ ] Certificates of Insurance (COIs) for ALL subcontractors used during policy period
- [ ] Verify each COI shows active Workers' Compensation coverage (not just GL)
- [ ] Verify coverage dates on each COI match the period subcontractor worked
- [ ] 1099 forms or check register showing all payments to subcontractors
- [ ] Subcontractor agreements or contracts for significant engagements
- [ ] Cash disbursement journal showing any cash payments for labor

★ *Missing COI = auditor adds subcontractor payments to your insured payroll. Collect certificates BEFORE work begins — not at audit time.*

4. Payroll Exclusions & Special Items

Document items that reduce auditable remuneration

- [ ] Expense reimbursement records (mileage, travel, business expenses with receipts)
- [ ] Severance pay documentation (must be unrelated to ongoing services)
- [ ] Employer-paid health, life, and disability insurance premium amounts
- [ ] Employer retirement/pension contribution records (401k, SIMPLE, SEP)
- [ ] Uniform allowance records (payments specifically for required work clothing)
- [ ] Third-party sick pay records (disability payments made by third parties)
- [ ] Officer/owner payroll — verify state minimum/maximum cap applies

5. Pre-Audit Verification Steps

Complete before the auditor arrives

- [ ] Reconcile payroll records to quarterly 941s — resolve all discrepancies
- [ ] Create payroll summary organized by classification code
- [ ] Calculate and document overtime premium exclusion amounts by employee
- [ ] Identify all employees classified as clerical — confirm they qualify
- [ ] Match all subcontractor payments to valid COIs — flag any gaps
- [ ] Confirm correct person is available to meet auditor (knows operations)
- [ ] Review current classifications with your broker for accuracy

6. Audit Day Reminders

- ☐ **Be Present:** Have someone available who understands operations and employee duties — owner, controller, or HR manager.
- ☐ **Take Notes:** Document what the auditor reviews, questions asked, and classification decisions made.
- ☐ **Ask Questions:** If a classification decision seems wrong, ask for explanation immediately.
- ☐ **Facility Tour:** Auditor may request a walkthrough. Ensure your workspace reflects your classifications.

If You Disagree With Audit Results

You have the right to dispute audit findings. Common grounds include: incorrect classification assignments, mathematical errors, documentation not properly credited, or misapplication of classification rules. Contact your broker immediately — most policies have time limits for filing disputes. Document your objections in writing with supporting evidence.

Time Limits Apply Start dispute process promptly — deadlines vary by carrier and state.

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