



Premium Audit Guide

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What is a premium audit?

A premium audit is a payroll review we conduct after the policy term expires or after the policy is cancelled. State Fund conducts audits to verify information and calculate a policyholder's final premium for a specific policy term.

When State Fund issues or renews a policy, we base the premium for the policy term on anticipated payroll multiplied by rates that are determined by your business operations.

$$\text{Your Anticipated Payroll} \times \text{Business Operation Rates} = \text{Your Policy Premium}$$

The premium audit process involves an examination of the policyholder's records to establish the actual payroll and to make sure the correct classification codes are used in determining the final premium.

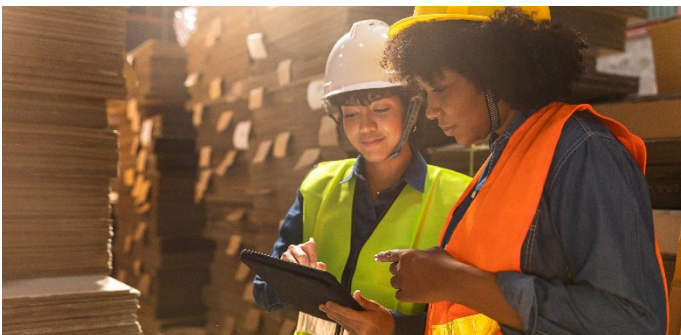
Because the original premium was an estimate, the audit may result in a change of premium and/or classifications for the business.

Information from the audit will generate either a bill or a refund.

Types of audits

Field Audit

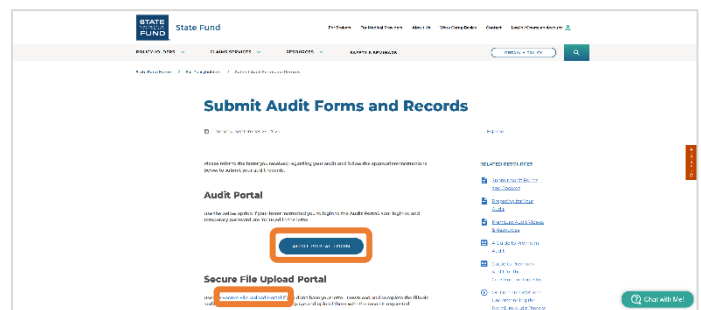
A field audit is an on-site review of the business records and possible inspection of business location(s) by a State Fund Auditor or a designated premium audit vendor.



A field auditor will review records and possibly business locations in a field audit.

Virtual Audit

We may ask policyholders to complete an audit by telephone, secure portal, or mail. We will request supporting records, such as payroll records and copies of the business quarterly tax reports.



Submit records for your audit electronically via the "Audit Portal Login" button or "Secure File Upload Portal" link on our [Forms and Records Submission](#) page.

Information requested at time of audit

Below are examples of the information an auditor may request at the time of an audit. Additional information may be required to complete the audit, depending on each business specific issues.



General information

- Description of company operations
- Officers/owners names, titles, and percentage of shares/ownership
- Employee names, titles, and job duties
- Number of employees at each location



Payroll information

- Gross pay, including bonuses, commissions, holiday pay, sick pay, vacation pay, and all pretax amounts
- Pretax/Section 125 amounts, 401K
- Overtime pay shown separately from regular hourly wage



Subcontractor information

- Name of Subcontractor
- Contractors State License Number (where applicable)
- Business License, Public Utilities Commission (PUC) License/Permit (where applicable)
- Certificates of Insurance covering the time period the services were provided
- Copies of project contracts and invoices



Tax information to verify payroll/sales records

- Forms 940, 941, 1096, 1099, W-2, W-3
- Income tax return
- State unemployment insurance (SUI) quarterly returns (DE-9/DE-9C)



Sales

- Profit and loss statement
- General ledger



Additional information typically requested for restaurants

- Tips shown separately
- Number of free meals given to employees
- Information about live entertainment

Premium Audit Checklist

To assist in gathering the necessary records for a premium audit, please refer to the checklist below.

- ☒ Payroll Records (Journals, Registers)
- ☒ Employee Earnings Records
- ☒ Payroll Breakdowns (Overtime/Class)
- ☒ Hours Worked and Hourly Rate
- ☒ State Quarterly Tax Return (DE9/DE9C)
- ☒ Forms 940 and 941
- ☒ Forms W-2 and W-3
- ☒ Forms 1096 and 1099
- ☒ Federal Income Tax Return
- ☒ List of Officers, Clerical Employees and Outside Salespersons
- ☒ Time cards showing start and stop times for Construction Policies
- ☒ Certificates of Insurance for Subcontractors
- ☒ Certified Payrolls for Wrap-Up (OCIP/CCIP/SEWUP) jobs.
- ☒ General Ledger and Check Register
- ☒ Bank Statements with Cancelled Checks
- ☒ Profit & Loss Statement
- ☒ Cash Disbursement Journals
- ☒ Sales Journal/Cash Receipts
- ☒ Job Cost Records, Contracts, & Invoices
- ☒ Gross Receipts
- ☒ Materials Costs

Payroll as a premium basis

Workers' Compensation premium is most often based on payroll.



Payroll includes, but is not limited to:



- hourly and salaried payroll
- bonuses
- holiday pay



- sick pay
- vacation pay



- commissions
- piece work



- market value of gifts
- profit-sharing

Payroll does not include tips, overtime excess, severance pay, expense reimbursements based on receipts, third-party sick pay, salary reductions to fund the welfare or fringe benefit portions of Section 125 cafeteria plan, personal use of a company auto and certain company perks (such as incentive vacations, club memberships or tickets to entertainment events).

Employer contributory payments, including group insurance, Employer contribution to Deferred Compensation plans and stock purchase plans are not subject to premium computation.

Also included in the payroll premium base are:

Meals and housing for employees, expense allowances not based on receipts, employee contribution to Deferred Compensation plans, payout of Deferred Compensation to current employees and employee's contribution to Stock Option plans.

Premium Audit Disputes

The audit is only the initial step in determining premium. Auditors do not have the information or payment history necessary to determine if the audit will result in a bill or a refund.

Dispute Resolution Process:

- If a policyholder believes an audit is incorrect, they should submit a written statement detailing the specific inaccuracies.
- Email disputes and supporting information to ADispute@scif.com
- Any claim of inaccurate audit information must be supported by a detailed explanation of the inaccuracies in the audit and what the corrections should be.
- Copies of original financial and/or other records that support the discrepancy must cover all disputed information. Policyholders filing a dispute may include spreadsheets outlining the disputed information, but those spreadsheets would need to be supported by source documents.
- Once we receive your supporting documents, we will review them and determine if the audit should be revised. If a revision is warranted, we will place a temporary hold on the outstanding bill. The policyholder must continue to pay all other billing invoices by due dates to avoid cancellation of the policy.

- Non-written or non-specific claims of dispute are not considered an official audit dispute. If the dispute notice is not supported or is vague, we will not place the audit bill on hold and the policy may be subject to cancellation if the bill is not paid by the due date.

Examples of Common Audit Issues:

Officer exclusions:

Officers or directors are excluded from coverage when:

- the officer or director owns at least 10% of the stock and they sign and return the Waiver of Workers' Compensation Form OR
- the officer or director owns at least 1% of the stock, is a direct relative (parent, grandparent, sibling, spouse or child) of someone who owns at least 10% of the stock, is covered by a health insurance policy or health care service plan, and signs and returns the Waiver of Workers' Compensation Form OR

- the owner is a practitioner rendering professional services for which the professional corporation is organized and that owner is covered by a health insurance policy or a health care service plan and they sign and return the Waiver of Workers' Compensation Form.

Subcontractors & Independent Contractors:

Most states require the employer to provide workers' compensation insurance coverage for uninsured contractors and subcontractors hired. To avoid being charged premium for these contractors, the insured must provide proof of a valid workers' compensation insurance policy issued to the contractor, or proof of their exemption from Worker's Compensation. Policyholders must also provide a valid license for the subcontractor, when required by state law.

Standard Exception Classification Code 8810:

Clerical – To qualify for the Clerical classification, the duties of clerical office employees must be limited to general office work. The employees must be located in an area that is physically separated from all other work areas and operations of the business. No payroll division is allowed between clerical and any other classification. Some classifications specifically cover all operations of the business, including clerical office employees and do not allow us to assign class 8810 to any employees.

Standard Exception Classification Code 8871:

Clerical Telecommuter Employees –To qualify for the Clerical Telecommuter classification, the employees must work more than 50% of their time at their home or other office space away from the location of their employer. The duties of the clerical telecommuter office employees must be limited to general office work. The employees must be located in an area that is physically separated from all other work areas and operations of the business. No payroll division is allowed between clerical telecommuter employees and any other classification. Some classifications specifically cover all operations of the business, including clerical telecommuter employees and do not allow us to assign class 8871 to any employees.

Standard Exception Classification Code 8742:

Salesperson Outside – The duties of outside sales employees must be limited to solicitation, collection activities, or meeting with clients outside the office. The balance of their time can be spent in the office, performing clerical duties. No payroll division is allowed between outside salesperson and any other classification. If they have duties of any other nature, they will be classified accordingly and would not qualify for classification 8742.

Frequently Asked Questions

What happens if a policyholder does not comply with a Premium Audit?

If the policyholder fails to comply with a Premium Audit, State Fund may cancel the current policy, which may have a negative impact on experience modification. State Fund may also estimate the policy's final premium, which may result in additional premium due.

If a policyholder works alone, has no employees and no payroll records, is the audit still necessary?

Yes. The auditor will need documentation to verify that information and may also look at disbursement records, bank statements, cancelled checks, or income tax returns. The auditor will also review information relative to any independent contractors used during the policy period.

What if I pay my employees in cash?

If you pay your employees in cash instead of payroll checks, you must keep a log of the cash payments, the hours worked, the dates paid, the amounts paid, and the first and last name of each employee. Otherwise, all cash withdrawals from your bank account may be included for computing workers' compensation premium.

Are payments reported on 1099s subject to premium?

Payments to uninsured and/or unlicensed workers reported on 1099s may be subject to premium and may be included in the audit as payroll. Determination is made on a case-by-case basis. The auditor may require additional information to assist in that determination.

For the trucking industry, please provide the following additional information for drivers not on regular payroll to the auditor:

- List of payments made to drivers
- USDOT/MCP for drivers
- DMV Registration for ALL drivers paid/CABCard
- Verification of number of trucks owned by insured
- Lease agreement for drivers

Is an audit still required when a policy has been cancelled?

Yes. The purpose of the audit is to verify actual payroll for use in the final calculation of premium during the time the policy was in force.

How are owners classified in an audit?

Owners, officers, partners, and manager/members may be able to elect exclusion under the policy depending on the type of entity insured. When owners are covered for workers' compensation, the annual payroll used for premium computation is included at actual earnings, which are subject to minimum and maximum limitations. Owners are classified according to their actual duties. A description of each person's duties must be provided.

What is overtime excess and how do I report it?

The portion of an employee's overtime wage that is over the regular rate of pay is called overtime excess. This portion includes increased pay for time worked on holidays, Saturdays, or Sundays, or the number of hours worked in any week or day beyond the standard for the industry.

Overtime excess does not include extra pay for swing or graveyard shifts, for working certain hours on the clock, for incentive, or for bonus pay figured on volume without regard to hours worked. The auditor will verify the employee(s) hours worked and hourly rate.

An easy way to calculate the overtime excess for time and a half is to divide the gross overtime by 3. For overtime excess paid at double time, divide the gross overtime by 2.

Example: If your employee's hourly wage is \$10 and the overtime rate of pay is \$15 (time and a half), the overtime excess is \$5. In this example, you pay premium on \$10 (\$15 divided by 3= \$5).

Are payments made to family members subject to premium?

Yes, as employees, family members are entitled to workers' compensation benefits. Special rules apply to family members living in the main household while working on a family-owned farm.

Could there be special audit requirements for some State Fund policyholders?

Some policies, such as those in Collective Bargaining group programs, temporary help agencies, U.S. L&H, farm labor contractors, and Professional Employer Organizations, have statutory requirements that may change the way the audit is completed. Some policies will require payroll segregated by client. Others will require payroll segregated by union and non-union. Your auditor will inform you of any special requirements in the appointment letter we'll send to you in advance of the audit date.

What gives State Fund the right to audit books and records?

The State Fund policy contract allows us to examine and audit records that relate to the business. Policy holders will receive additional notification about premium audits through letters and emails, both when the policy is originally written and at renewal.

What happens after the audit is completed?

The policyholder may ask for a copy of the audit upon completion. Once complete, the audit is sent for review and final billing. We will send a final statement with the payroll exposures gathered from the audit and premium calculated.

How can I get a copy of the audit documents?

You may view an electronic copy of the audit report via State Fund Online, or you may request a copy from State Fund. Your customer service agent, underwriter, or auditor can all assist you. You can also contact your broker.

Helpful Tips

- Have a person who is familiar with the business operations and familiar with the payroll records available during an audit appointment to provide records and answer the auditor's questions.
- Clearly outline the overtime so the auditor can give the overtime excess credit.
- Construction companies should keep track of time and payroll for different types of work. Dual-wage classifications (a classification that requires the regular hourly wage to equal or exceed a specified amount) require timecard verification. See the Premium Audit Construction Brochure for details.
- Obtain Workers' Compensation certificates of insurance for subcontractors and/or independent contractors.
- Identify the job duties of the employees. If you have clerical or outside sales employees, please state at least three job duties that they perform (by employee).
- Keep a record of tips for restaurant employees.
- Large payroll changes should be reported to your broker or underwriter as they occur. Estimated payroll can be changed during the policy period and any additional premium may be spread over several installments. Reporting changes will keep the policy in line with the actual payroll figures and avoid large differences at time of audit.
- Changes to ownership, corporate titles, or stock, could affect your policy premium and should be reported immediately.

Please include Policy Number and Policy Name in all correspondence

How to contact us

Phone: (888) 782-8338

Premium Audit Dispute

ADispute@scif.com

Premium Audit Rewrite

RAudit@scif.com

All Other Premium Audit Requests

PAudit@scif.com

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