

Workers Compensation Audits

Don't Get Caught Unaware!

Workers Compensation policies are subject to annual payroll audit. During the year, your business may expand or reduce the number of employees or change wage levels. So it is important to remind you about audits, how they work, and 6 ways to avoid surprises.

What is the purpose of a payroll audit?

The initial Workers Compensation premium charged at the beginning of a policy term is a "deposit only" based on an estimate of payroll for each worker classification for the coming policy year. The insurance company will perform a payroll audit to ensure that you only pay a premium based on your "actual" payroll. An accurate audit at the end of the policy term will adjust your final premium up or down when reconciled against the initial estimated payroll. So, prior to your policy renewal each year you will receive an audit form from the insurance company requesting actual payroll paid in each worker classification.

A surprise to avoid!

Nobody likes to face an unplanned expense. If you expand your payroll significantly during the year you may want to adjust your estimated payroll and pay more now into your premium deposit. That way you can avoid a large and unbudgeted additional premium expense at the end of the policy year.

What you can do to avoid surprises.

1. **Verify** during the year that your estimated payroll is what you anticipated. If your estimate is too low, an audit will create an unwelcomed bill for additional premium. If your estimate is too high then you will overpay the initial premium deposit and must wait until audit for a refund. [Contact us](#) for help to revise your estimate and adjust your premium during your policy term.
2. **Keep** accurate payroll records and separate actual payroll for each worker classification that appears on your policy.
3. **Monitor** during the year your actual payroll amounts in relation to what was estimated. If you are having a great year with higher payroll than estimated it would be wise to set aside money in anticipation of the audit premium that will be due.
4. **Subcontractors or Independent Contractors** you hire in your operations need to provide you certificates of insurance as proof of Workers Compensation Insurance. Keep these certificates on file for your audit. If you can't provide this proof at audit then all uninsured subs or independent contractors are assumed to be your employee for Workers Compensation purposes. You will be charged a Workers Compensation premium for the gross cost paid to subs or independent contractor.
5. **Voluntary audits** are sent to you at the end of your policy term. You must respond in a timely fashion. By law, a mandatory on-site auditor may inspect your payroll records for compliance. Contact us with any questions you have when completing an audit.
6. [Contact Us](#) for advice during the year if you have a material change in your operations. A change in operations may increase or decrease your workers compensation premium or create new employee rating classifications with different rates on your policy.