

Your Workers' Compensation Final Audit

By Jeff Cavnac, CPCU, RPLU, ARM, CRIS, MLIS

The ultimate cost of your workers' compensation program is determined by a number of factors, not the least of which is your final audit.

The workers' compensation audit process can be confusing, complex and, if done incorrectly, expensive. It doesn't help that the audit process is set up so that most errors benefit the insurance company.

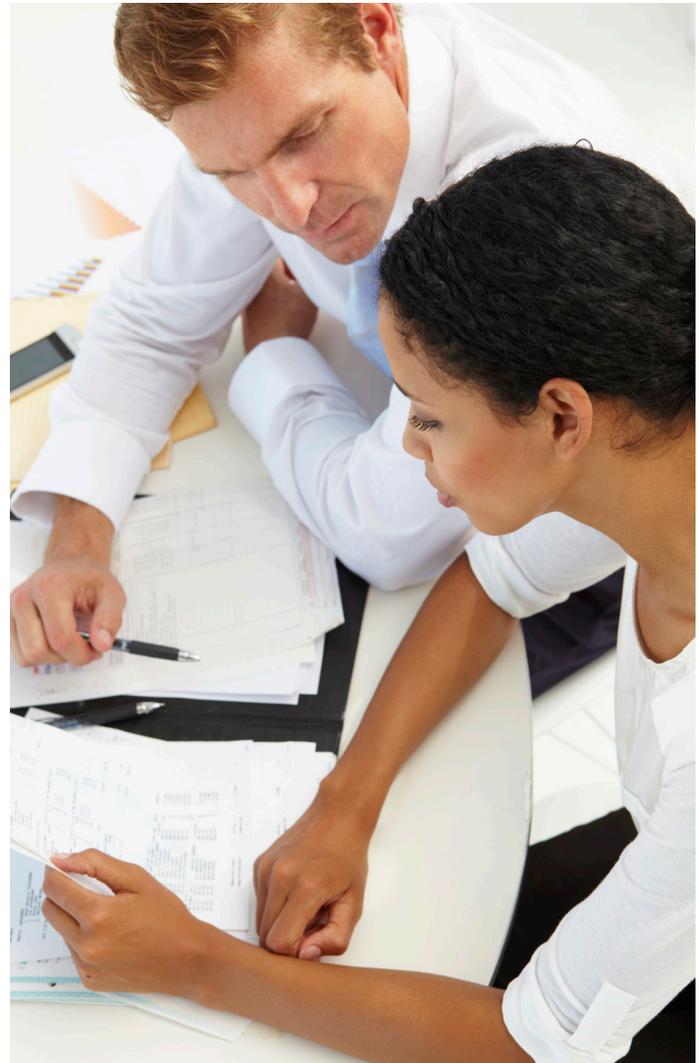
The company may simply ask you to send the information needed to perform the audit, or may choose to conduct a physical audit in your office. In either case the auditor will probably want to see your State quarterly wage and withholding reports (DE-6s), payroll journals, and any previously filed payroll reports for the period being audited. Occasionally, other records that relate to your workers' compensation policy may be requested as well.

Regardless of which records are requested, it is imperative that the payroll is placed in the appropriate classifications and that any rules that could work to your advantage are employed.

Understanding the Audit Process

The following information will help you better prepare and understand the audit process.

Premium Basis – Your premium is based on gross payroll, not net payroll. Gross payroll includes salaries, commissions, bonuses, vacation and holiday pay, sick pay, overtime payments (which can subsequently be deducted), the value of gifts, all sub-



stitutes for money earned or paid during the policy period, including meals and lodging in lieu of wages, automobile allowances, and any amount by which an employee's salary is reduced to fund a pension or deferred compensation plan.

Appropriate Classifications – Don't overlook clerical and sales classifications. In addition, if you have several classifications on your policy with various rates, make sure you understand the differences so you can classify your employees in the most favorable category.

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Split Payroll Classifications – Some payroll classifications allow you to split an employee’s payroll among various class codes (recognize that many codes, including clerical, do not allow this split). In order to take advantage of such a split, proper payroll records must be kept that specifically identify time worked in each classification.

Dual Wage Classifications – Some construction and erection operations divide employees into two separate classifications based on an employee’s hourly wage rate. Premium rates are higher for the lower hourly wage rate. In order to take advantage of the higher wage rate classification, the law requires that time cards or time logs must be kept that show actual hours worked and start and stop times for each employee for each day. The time keeping requirements apply even if you pay prevailing wage or have union employees.

Executive Officers and Partners – Executive Officers and Partners are capped for payroll purposes. For 2014, the minimum amount that an executive officer or partner can be charged is \$39,000, and the maximum amount is \$101,400. If you have elected to exclude executive officers or partners, make certain that their payroll is not included in the audit.

Overtime – You are not required to pay workers compensation premium on the overtime portion of a wage. In other words, if somebody who normally makes \$10 an hour works an hour of overtime and is paid \$15, you would pay premium for the overtime hour based on a rate of \$10 per hour, not on a rate of \$15 per hour. It is important that your payroll records be maintained to show the regular rate of pay, the overtime earnings by employee, and a summary by type of operation performed so the auditor can give you credit for overtime excess.

Severance – If you have paid severance to anyone in the past year, you can deduct this from your audit. You are not required to pay workers compensation premium on severance pay.

Payments to Inactive Employees – Payments to inactive employees are not counted when calculating your workers compensation premium.

Third Party Sick Pay – Were there any employees hurt on the job that received disability payments (short or long term) from a disability carrier or provider? If this third party sick pay was included in the employee’s W-2 and/or payroll register, you can deduct it.

Travel Expense Offset – Did any employees receive additional funds to offset travel expenses? This is not chargeable as payroll.



Form 1099 – If anyone was paid by Form 1099 through your payroll, was this amount deducted for workers compensation purposes?

Uniform Allowance – Was anything added to individuals’ payrolls to compensate for required work clothes or safety equipment? If so, this can be deducted.

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Any Other Additions or Exclusions – Other than base pay, bonuses and commissions, were there any other additions or exclusions to payroll?

Subcontracted Work – If you subcontract work you will be asked to supply basic information about your subcontractors and verification that they have appropriate insurance. Recognize that if they do not carry the appropriate insurance, you will be charged a premium based on their exposures (see attached explanation of how that premium will be charged).

Owner-Controlled Insurance Programs ('Wrap-Up' Policies) – Were you involved in any owner-controlled insurance programs ('wrap ups') that extended to workers compensation? If so, you can deduct the payrolls included under the 'wrap' from your payrolls submitted for the audit.

Preparing Your Audit Package

Once you have all of your records in order you should prepare an Audit Package to give to the auditor when they arrive.

1. **Classification** – Use a spreadsheet to place each employee into the correct classification (Exhibit 1). Any questions as to where to classify specific employees should be discussed with your broker.
2. **Remuneration** – Adjust for excluded remuneration.
3. **Adjust for Exempted** or excess corporate officers' payroll.
4. **Delete the overtime portion** of any payroll.
5. **Summary Statement** – Total payrolls for all classifications and prepare a Summary Statement (Exhibit 2).
6. **Owner Controlled Insurance Programs (OCIP) Payroll** – Keep separate records of OCIP payroll and exclude it from your audit payroll.

(continued on page 3) **Final Audit**

2014 Risk Management Seminar Series



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NOTE: Due to the popularity of our seminars and limited space available, we regret we cannot provide refunds or credits with less than 72 hours advance notice of cancellation.

7. **Time Cards or Time Logs** – If you are using dual wage classifications, have time cards or time logs showing actual hours worked and start and stop times for each employee available for the auditor to review (Exhibits 3 & 4).
8. **Subcontractors** – If you employed any subcontractors, compile the appropriate Certificates of Insurance and have them available to show to the auditor.
9. **Uninsured Contractors** – Confirm that any uninsured contractors are placed in the appropriate classification.

The Auditor Arrives

1. **Treat the Auditor as a Welcome Guest** – Assign a knowledgeable and friendly person to work with the auditor. Treat the auditor as a welcome guest.
2. **Audit Package** – Present the auditor with your Audit Package.
3. **Volunteer Nothing** – Answer the auditor's questions, but do not offer gratuitous information.
4. **Premises Tour** – Provide the auditor with a tour if he/she wants one, but don't allow him/her to roam freely and unaccompanied around the work place.

Final Comments

In general, the insurance companies' auditors do an excellent job. If, however, you have questions or think the audit may be inaccurate, you should contact your broker.

If done correctly, the audit process will result in an appropriate premium charge. If done incorrectly, it can result in dramatic overcharges. The key to making certain your audit is done properly is to understand the process and prepare accordingly. ■

Premium for Uninsured Subcontractors

Article courtesy of WorkComp Advisors

If you subcontract work, you will be responsible for providing the subcontractor with workers' compensation insurance unless you can furnish satisfactory evidence that the subcontractor had workers' compensation insurance in force covering the work performed for the contractor.

For each subcontractor *for which such evidence is not furnished*, additional premium shall be charged on the policy that insured the contractor as follows:

1. The contractor shall provide a complete payroll record of the employees of each uninsured subcontractor. Premium on such payroll shall be based on the classifications that would have applied if the employees of the subcontractor had been employees of the contractor.
2. If the contractor does not supply the payroll records of its subcontractor, the full subcontract price of the work performed during the policy period by the subcontractor shall be established as the payroll of the subcontractor shall be established as the payroll of the subcontractor's employees. The additional premium shall be charged on that amount as payroll.

In contracts for:

- a. Mobile equipment with operators (such as but not limited to earth movers, graders, bulldozers, or log skidders), the payroll shall not be less than 33-1/3% of the subcontract price.
- b. Labor and material, the payroll shall not be less than 50% of the subcontract price.
- c. Labor only, the payroll shall be established as not less than 90% of the subcontract price.

If vehicles with drivers, chauffeurs, or helpers are engaged under contract and the owner of such vehicles has not furnished evidence that the workers' compensation obligation has been insured, the total payroll of such drivers, chauffeurs or helpers shall be included as payroll of the insured employer that contracted for such vehicles.

Whenever you subcontract work, it is imperative that you require evidence (Certificates of Insurance) of workers' compensation insurance and have those available for the auditor's review.

Exhibit 1: Classification Matrix

CLASSIFICATION CODE 8748

Employee Name	Class Code	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total	Overtime	Adjusted
Employee Name	8748	\$ 12,321.06	\$ 14,416.60	\$ 11,276.84	\$ 12,646.09	\$ 50,660.59	\$0.00	\$ 50,660.59
Employee Name	8748	0.00	0.00	3,032.56	8,907.77	11,940.33	0.00	11,940.33
Employee Name	8748	12,482.10	12,731.13	10,675.67	11,071.14	46,960.04	0.00	46,960.04
Employee Name	8748	12,560.90	13,233.32	10,699.09	8,930.20	45,423.51	0.00	45,423.51
Total		\$37,364.06	\$40,381.05	\$35,684.16	\$41,555.20	154,984.47	\$ 0.00	\$154,984.47

CLASSIFICATION CODE 8380

Employee Name	Class Code	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total	Overtime	Adjusted
Employee Name	8380	\$ 16,246.26	\$ 15,465.33	\$ 4,984.35	\$0.00	\$ 36,695.94	\$0.00	\$ 36,695.94
Employee Name	8380	9,581.05	9,332.64	10,039.17	9,163.21	38,116.07	0.00	38,116.07
Employee Name	8380	2,150.00	2,100.00	875.00	0.00	5,125.00	0.00	5,125.00
Employee Name	8380	10,024.64	9,857.55	10,412.64	9,701.66	39,996.49	0.00	39,996.49
Total		\$38,001.95	\$36,755.52	\$26,311.16	\$18,864.87	\$119,933.50	\$ 0.00	\$119,933.50

CLASSIFICATION CODE 8810

Employee Name	Class Code	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total	Overtime	Adjusted
Employee Name	8810	\$ 8,028.20	\$ 7,772.04	\$8,338.40	\$ 8,022.52	\$ 32,161.16	\$ 252.99	\$ 31,908.17
Employee Name	8810	17,300.00	17,800.00	23,300.00	17,500.00	75,900.00	0.00	75,900.00
Employee Name	8810	7,340.00	7,340.00	12,410.00	7,340.00	34,430.00	0.00	34,430.00
Employee Name	8810	33,000.00	33,000.00	58,000.00	33,000.00	157,000.00	0.00	157,000.00
Total		\$65,668.20	\$65,912.04	\$102,048.40	\$65,862.52	\$299,491.16	\$252.99	\$299,238.17

Exhibit 2: Summary Statement

Total for Class Code		8748	Rate		\$1.84
1st Quarter		\$37,364.06	Total Remuneration		\$154,984.47
2nd Quarter		40,381.05	Excluded Remuneration		0.00
3rd Quarter		35,684.16			
4th Quarter		41,555.20			
Total Remuneration		\$154,984.47	Adjusted Remuneration		\$154,984.47
			Manual Premium		2,851.71

Total for Class Code		8380	Rate		\$6.99
1st Quarter		\$38,001.95	Total Remuneration		\$119,933.50
2nd Quarter		36,755.52	Excluded Remuneration		0.00
3rd Quarter		26,311.16			
4th Quarter		18,864.87			
Total Remuneration		\$119,933.50	Adjusted Remuneration		\$119,933.50
			Manual Premium		8,383.35

Total for Class Code		8810	Rate		\$0.59
1st Quarter		\$65,668.20	Total Remuneration		\$299,491.16
2nd Quarter		65,912.04	Excluded Remuneration		252.99
3rd Quarter		102,048.40			
4th Quarter		65,862.52			
Total Remuneration		\$299,491.16	Adjusted Remuneration		\$299,238.17
			Manual Premium		1,765.50

Exhibit 3: Sample Employee Time Sheet

Name Employee 1 Pay Period Beginning 7/12/20XX Pay Period Ending 7/23/20XX

Day	Date	Time In	Time Out	Time In	Time Out	Regular Hrs	O/T Hours	Holiday/ Floating Holiday Hours	Total Hours for Day
Monday	7/12/10	8:00 AM	12:00AM	1:00 PM	5:00 PM	8			8
Tuesday	7/13/10	8:00 AM	12:00AM	1:00 PM	5:00 PM	8			8
Wednesday	7/14/10	8:00 AM	12:00AM	1:00 PM	5:00 PM	8			8
Thursday	7/15/10	8:00 AM	12:00AM	1:00 PM	6:00 PM	8	1		9
Friday	7/16/10	Out sick				0			0
Weekly Total						32	1		33

Day	Date	Time In	Time Out	Time In	Time Out	Regular Hrs	O/T Hours	Holiday/ Floating Holiday Hours	Total Hours for Day
Monday	7/19/10	8:00 AM	12:00AM	1:00 PM	5:00 PM	8			8
Tuesday	7/20/10	8:00 AM	12:00AM	1:00 PM	5:00 PM	8			8
Wednesday	7/21/10	8:00 AM	12:00AM			4			4
Thursday	7/22/10	8:00 AM	12:00AM	1:00 PM	5:00 PM	8			8
Friday	7/23/10	8:00 AM	12:00AM	1:00 PM	5:00 PM	8			8
Weekly Total						36			36
Total Hours for Pay Period						68	1		69

Employee Signature

Date

Supervisor Signature

Date

Exhibit 4: Sample Employee Time Log

Location/Job Site Site # 123 Day Wednesday Date 7/21/20XX

Employee Name	Time In	Time Out	Total Hours Worked
Employee 1	6:30 AM	3:00 PM	8
Employee 2	6:30 AM	3:00 PM	8
Employee 3	6:30 AM	3:00 PM	8
Employee 4	6:30 AM	3:00 PM	8
Employee 5	6:30 AM	3:00 PM	8
Employee 6	6:30 AM	3:00 PM	8
Employee 7	6:30 AM	3:00 PM	8
Employee 8	6:30 AM	3:00 PM	8
Employee 9	6:30 AM	3:00 PM	8
Employee 10	6:30 AM	3:00 PM	8
Employee 11	6:30 AM	3:00 PM	8
Employee 12	6:30 AM	3:00 PM	8
Employee 13	6:30 AM	3:00 PM	8
Employee 14	6:30 AM	3:00 PM	8

Notes:

- 1/2 Hour lunch break for all employees from 12:00 – 12:30



Wintertime Workouts

Whether you're in full-out hibernation mode or stressed out and busy from the holidays, your exercise routine might be one of the first casualties of the season. However, continuing your workouts throughout winter will help you stay energetic and healthy during the colder months of the year, and exercise might enable you to stave off that dreaded holiday weight gain. Lack of motivation, limited time and drab winter weather can all work against your attempts at getting sufficient exercise—whatever your reason, use some of the following tips to get moving this winter.

No motivation. The holidays are busy, and winter brings fewer daylight hours and colder temperatures. Here are a few options for rekindling your interest in exercise:

- Mix up your routine; if you usually run, try weightlifting or taking a dance class.

- Find a new winter sport that interests you and take a class or join a club.
- If using gym equipment at home, put a TV in front of the treadmill.
- Phone a friend—sometimes a little company is all you need to get moving.
- If you have children, take them sledding or help them build a snow fort; wearing extra clothes and trudging through snow burns more calories than you might think!

Limited time. If you're busy with holiday preparation and parties, sometimes you need a quick, unscheduled workout idea. Here are a few options:

- Jump rope—this activity is not just for kids, as jumping rope can be a great way to get your heart rate up in just a few minutes.

- Lift weights in the kitchen—use cans, milk jugs or whatever is convenient in order to fit in a few bicep curls while you make dinner or organize the pantry.

Cold and wet weather. Whether you live in a snow-steeped area of the country or you suffer from drizzly weather and gray skies, going for a run isn't as simple as it is during the summer. If you're determined to brave the elements, try these tips for a safe workout:

- Do a quick warm-up inside, such as jogging in place or doing jumping jacks.
- Dress in layers that you can peel off and tie around your waist as you go.
- Wear gloves and a headband or hat to help protect against frostbite.

Cold weather and busy holidays don't have to be an insurmountable obstacle for fitting in a workout. If you keep exercising during the holiday season, you'll feel better, stay healthier and be able to justify that extra dessert.

Unplugging during the holidays gives you more time to spend with your family and relax.

Unplugging for the Holidays

Constant connection to technology and personal mobile devices can be fun and helpful—think text messages and GPS—but being tethered to your smartphone, laptop or tablet can also increase stress, lead to reduced physical activity and decrease your ability to focus on the people around you. Less stress and more time to have fun with your family are a few of the benefits of unplugging. Here are a few tips to help you unplug for the holidays (or at least reduce your screen time):

- Leave your cellphone and laptop in another room, or at least turn off notifications and temporarily delete social media apps to reduce temptation.
- Tell your family and friends that you're unplugging for the holidays; they might even join you for a technology-free vacation.
- Set a specific, limited amount of time when you can access your work email, if you absolutely must check in.
- Plan technology-free activities—try playing board games, going sledding or bike riding, baking cookies, reading a book, hosting a karaoke night at home or reviving an old hobby.

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Indoor Air Pollution

The mention of air pollution often brings to mind images of city streets packed with cars or a pollen-laden spring breeze. However, indoor air pollution can be as much of a problem as outdoor pollution. A few sources of indoor air pollution include the following:

- Tobacco smoke
- Mold, pollen and pet dander
- Radon and carbon monoxide
- Household products such as cleaners, paint thinners and glue

The effects of indoor air pollution can range from mild discomfort to the development of diseases such as respiratory ailments and cancer. Young children, the elderly and those with asthma or allergies may suffer the most from poor air quality. Combat indoor air pollution with these strategies:

- Open windows for a few minutes every day to allow in fresh air, even during winter.
- Vacuum and mop the floor rather than sweep.
- Don't allow smoking indoors.
- Test for radon and install a carbon monoxide detector.
- Replace your plug-in air freshener and artificially scented cleaners with fragrance-free and naturally scented products.

Credit Card Savings



Typical payment options are cash, credit or debit. Using debit or cash can help you stick to a budget because they limit your spending, but responsibly using a cash-back or rewards credit card can actually save you money.

With cash-back cards you earn cash when you use the card. Typically these cards give you 1 to 3 percent in reward money for the dollars you spend, but some may give you a higher percentage for certain categories of purchases.

Rewards credit cards allow you to accumulate points when you use your credit card. Points can be redeemed for a variety of items that may include gift cards, plane tickets or other deals depending on your credit card offer.

Although credit cards can be used to save money, remember to only use them if you know you can and will pay them off in full, or they will end up costing you extra. Here are a few tips to make sure your credit card works for you:

- Don't spend more just to earn cash back or reward points.
- Pay your bill in full every month to avoid interest payments.
- Label your cards with the purchase categories and rewards they offer.



Potato Soup

At the end of a cold winter day, enjoy this hearty baked potato soup. Try adding diced, cooked chicken, turkey or ham to mix up the flavors.

2 Tbsp. light butter spread

1 small onion, chopped

2 medium potatoes, baked, peeled and mashed

3 cups prepared instant nonfat dry milk

1 can (about 14.5 ounces) low-sodium chicken broth

1 cup reduced-fat cheddar cheese, shredded

Pinch of pepper and salt, to taste

Melt butter spread in a large saucepot over medium heat and add chopped onion, stirring occasionally until onions are clear. Stir in potatoes, milk and broth; continue to stir until smooth. Bring to a boil over medium heat, stirring occasionally. Remove from heat and stir in $\frac{1}{2}$ cup cheese. Add pepper and salt to taste. Sprinkle remaining cheese on top and serve.

Yield: 5 servings. Each serving provides 267 calories, 11 g of fat, 28 mg of cholesterol, 486 mg of sodium and 1 g of fiber.

Source: USDA

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SPOTLIGHT ON



Cavnac & Associates is proud to support local and non-profit civic organizations, including SAY San Diego (Social Advocates for Youth)



SAY San Diego (Social Advocates for Youth) is a dynamic, nonprofit organization that strengthens the whole child, whole family and whole community. SAY was established in 1971 and serves more than 30,000 individuals, prenatal through adult, each year.

SAY's Mission is to partner with children, families and communities to overcome barriers and create opportunities that enable them to realize and sustain their full potential.

Many individuals and families contact SAY directly, while others are referred to us by schools, courts, law enforcement, community organizations and people who have who have benefitted from SAY's services.

Each year, SAY holds an Adopt-A-Family holiday drive to help families whose pressing needs often overshadow the holidays.

Last year, over 1,500 children and parents benefitted from the generosity of San Diego's community members.

For more information about SAY San Diego, go to www.saysandiego.org.