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## **FREQUENTLY ASKED QUESTIONS ABOUT WORKERS' COMPENSATION PREMIUM AUDITS**

If your business is covered by workers' compensation insurance, you are most likely getting ready for your annual premium audit. Audits can be confusing, and we hope the following questions and answers can help explain the audit process.

**What is an audit?** An audit is the assessment of the total payroll for a policy period from all officers, employees and subcontractors. The audit also makes sure employees, officers and subcontractors are properly classified according to their respective job descriptions. An audit covers a specific time frame, normally from the first date your policy became effective to the last date your policy was effective.

**Why am I being audited?** Florida law requires insurance companies to perform audits on their workers' compensation policies. Workers' compensation premium is based upon the description of operations and the estimated payroll you and your agent provided at the beginning of the policy period. If your operations or payroll changed during the policy period, you will either owe more premium or be owed a refund. The audit is used to determine the actual payroll and determine the proper premium for the policy period. Because your premium is based on the payroll in each job classification, it is important that you be able to explain to your auditor the duties and operations of the company and its employees.

**Who will audit my records?** Some insurance companies have internal auditors, and some hire outside auditors. If you are insured with FUBA Workers' Comp, you will be contacted by an auditor

representing an audit firm working on our behalf.

### **What records do I need to have at the audit?**

- Individual payroll records for all entities covered by your workers' compensation policy.
- General ledgers, payroll journals, check stubs, last year's profit and loss statement.
- Schedule C, Florida UCT-6's, Federal 941's, and any 1099's.
- Total overtime per employee.
- Amounts paid to subcontractors, and their description of operations.
- Certificates of Insurance or Re-Issued Exemptions for all owners, officers and subcontractors used during the policy period.

**The auditor met with me a week ago. To date, I do not have the results of the audit. Where is my audit?** Numerous steps are taken to ensure an accurate audit; this process is time consuming and will take several months to complete the process. Please be patient.

**Are there payroll minimums or maximums for corporate officers covered under a workers' compensation policy?** Yes. For corporate officers in the construction industry who are covered under a workers' compensation policy, they will be charged premium based on their actual payroll, subject to a minimum imputed payroll of \$6,500.00 and a maximum of \$93,600 in the construction industry. For example if the president of a drywall corporation was paid \$38,000, he or she would be charged premium based on \$38,000.00 in payroll. If a vice president of a masonry corporation made only \$4,000 in an entire year, then that person would be charged

the minimum of \$6,500 of payroll. On the other hand, if the same vice president had earned \$100,000.00 in payroll, then he or she would only be charged the maximum of \$93,600.00 in payroll. For included officers who are not in the construction industry, there is a higher minimum for corporate officers of \$300.00 a week, or \$15,600.00 a year. The maximum is the same, at \$93,600.00.

**Will the auditor be able to tell me if I will be getting a refund?** No. Many times the auditor does not have access to the information necessary to make this determination, and it is not their responsibility to do so. The auditor's only job is to evaluate your payroll and obtain an accurate description of operations.

**My company just started doing business and I do not have any payroll. Do I still need an audit?** Yes. Even though your company may not have any payroll, you still need to comply with the audit requirements. Please meet with the auditor and bring any and all pertaining financial documentation.

**I do not have time to do an audit. What happens if I do not comply?** If an audit is not done in a timely manner, your policy can be cancelled. You can also be charged significant fines if you do not comply with the audit. The auditors understand that you are busy and will do their best to accommodate your schedule, but they cannot wait forever to do it. You can designate someone else to meet with the auditor on your behalf, like your accountant or your assistant, as long as this person has all of the financial records, certificates of insurance, and exemptions.

**I used subcontractors during the policy period. What do I need to show the auditor?** The auditor will need to see a journal of the dates and how much was paid to each subcontractor. Please break out how much was paid for labor and have on hand all invoices for materials and equipment. You also need to show the auditor all certificates of insurance or exemptions for your subcontractors. If your accountant is the contact person for your audit, please make sure that they have all certificates and exemptions for the subcontractors. These documents are necessary to ensure you do not pay premium on subcontractors who are either insured or exempt from workers' compensation.

**I was exempt for part or all of the policy period. Do I need to have my exemption(s) at the time of the audit?** Yes. Please have all exemptions valid for the policy period present at the time of audit. Due to the recent law change revoking all construction exemptions as of 1/1/04, the auditor will need to see the exemption prior to 1/1/04 as well as the re-issued exemption. Please note that if there was a lapse in your exemption, you will be charged premium for the payroll during that lapse.

**I am a sole proprietor. What do I need for the audit?** Sole proprietors must bring the same payroll records as corporations, but they may not have UCT-6's, or 941's if they do not have employees. If you used any subcontractors, please have a copy of their 1099's, a record of all payments made, certificates of insurance, or exemptions. In Florida, sole proprietors are charged premium based on a flat rate of payroll, which is presently \$38,600.00. However, if you can show tax documents proving that you made less than that, your premium will be based on the lower amount.

**I have gotten my audit back, and I disagree with the amount of payroll on the audit. What do I do?** With your audit, you should receive written instructions on how to dispute your audit. Please send your dispute and the reason why you disagree, along with the supporting documentation in writing to your insurance company's audit department. For example, "I, Joe Smith, of AAA Painting, policy #106-33333, disagree with the findings of our 2003 final audit because the subcontract, Mark Painter was included on the audit, and I have a valid Certificate of Insurance in the name of Mark Painter for the policy period. I have attached his Certificate of Insurance." Your insurance company should respond to you either by fax, mail, or phone within a month and let you know the result of the dispute. You have 30 days from the date the audit is mailed to dispute the findings.

**Why does my final audit invoice show two different rates?** In Florida, workers' comp rates are set by the state. All insurance companies charge the same rates. On October 1, 2003, the state lowered the rates by 14%. Your audit invoice will reflect two different rates for each class code if your policy began prior to 9/30/03 and extended beyond 10/1/03.