Your workers' compensation premium starts as an estimate based on the payroll you expected for each type of work. After the policy ends, your insurance company audits your actual payroll and recalculates the premium. If payroll grew, you owe more; if it shrank, you get money back. The audit also confirms who is covered, what each person does, and whether the people you paid as contractors carried their own coverage. This guide explains what auditors look for and how to get ready, and ends with a worksheet you can fill in before the audit.

1 HOW A WORKERS' COMP AUDIT WORKS

- **When:** Audits usually happen within a few weeks to about two months after the policy expires. Under the standard workers' compensation policy, the carrier may examine your records for up to three years after the policy ends.
- **How:** By mail or online (you send records), by phone with an auditor, or in person at your office. The carrier chooses the type; larger accounts and contractors are more likely to get an in-person audit.
- **What is checked:** Total payroll, how it is split among classification codes, payroll by state, overtime, owners and officers, and payments to subcontractors, temps, and 1099 workers.
- **Why it matters beyond this year:** Audited payroll by class is reported to the rating bureau and used in future experience rating, and it sets the deposit premium for your next policy. Errors can follow you.
- **Do not ignore it:** If you refuse or do not provide records after two requests, many states let the carrier add an Audit Noncompliance Charge of up to two times your estimated annual premium (up to three times in North Carolina). It is reversed once you complete the audit.

2 RECORDS TO HAVE READY

Gather these for the exact policy period (not your fiscal or calendar year, unless they match). Check each one off as you collect it.

Payroll and tax records:

- ☐ Payroll register or journal
- ☐ Federal Form 941 (all quarters)
- ☐ State unemployment reports
- ☐ Form W-3 / 1099 summary
- ☐ Overtime totals in dollars
- ☐ Owner and officer pay

Supporting records:

- ☐ General ledger or check register
- ☐ Most recent tax return
- ☐ Time records by type of work
- ☐ Payroll by state
- ☐ Officer / owner exclusion forms

People and contractors:

- ☐ List of employees with job duties
- ☐ Subcontractor payments list
- ☐ Workers' comp certificates for subs
- ☐ Temp or leased worker invoices
- ☐ Jobs or locations by state

3 WHAT COUNTS AS PAYROLL

Workers' compensation premium is based on payroll, which rating rules call remuneration. It is broader than base wages. Rules vary by state, so treat these lists as a general guide.

- **Included:** Wages, salaries, commissions, bonuses, holiday, vacation, and sick pay, piecework and incentive pay, prevailing (Davis-Bacon) wages, employee 401(k) deferrals and cafeteria-plan deductions, and the value of housing, meals, or merchandise given as pay.
- **Usually excluded:** Tips, the employer's share of health insurance and retirement contributions, severance, pay for active military duty, expense reimbursements, uniform allowances, and sick pay from a third-party insurer.
- **Overtime:** The extra half of time-and-a-half (one-third of total overtime pay) is usually excluded, but only if your records show overtime separately and in dollars, not just hours. Without that, the full amount stays in.
- **Gross, not net:** Report pay before taxes and deductions. Match your totals to your Form 941s; auditors start there.

4 OWNERS, OFFICERS, PARTNERS & MEMBERS

- **Included officers:** Usually rated between state minimum and maximum payroll amounts, not their actual pay. An officer paid well above the maximum is audited at the maximum.
- **Sole proprietors and partners:** If they elect coverage, most states assign a set payroll amount regardless of actual income.
- **Excluded owners:** Need a signed exclusion or state filing on file for the policy period. Without it, many states include them by default, and the auditor will add their payroll. Our General Inclusion / Exclusion Form (CWCO-GEN-INCLEXCL) records the election where no state form is required.
- **Field work counts:** An owner who works in the field is classified by that work, not as clerical.

5 CLASSIFYING YOUR EMPLOYEES

- **Duties, not titles:** Auditors classify each person by what they actually do. A "manager" who works in the field is rated as a field worker.
- **Office and sales staff:** Clerical staff and outside salespeople who do no physical work usually have their own, much lower rates. Keep their payroll separate and describe their duties clearly.

General guidance only. Your policy, your carrier's audit rules, and your state's rules control. This is not legal or tax advice.

- **Splitting one person's pay:** Many states allow one employee's pay to be divided among classes only when your time records show the hours and pay for each type of work. Without records, all of it goes to the highest-rated class.
- **Multiple states:** Report payroll by the state where the work is done. Work in a state not listed on your policy can create a coverage gap, so tell us before it starts.
- **New work:** If you started a new type of work during the year, tell us before the audit so it is classified correctly and doesn't surprise you.

6 SUBCONTRACTORS, TEMPS & 1099 WORKERS

> **MOST COMMON AUDIT SURPRISE**
> *Payments to subcontractors who cannot show their own workers' compensation insurance are usually added to your payroll and charged at your rates. If the auditor cannot get the sub's actual payroll, some carriers use a set share of the contract price, for example one-third for equipment rented with a driver, half for labor and materials, and 90% for labor only.*

- **Before work starts:** Get a certificate of insurance showing workers' compensation coverage, the carrier, policy number, and policy dates. Certificates marked "TBD" or filled in by hand are often rejected.
- **During the year:** Request updated certificates when policies renew, or quarterly for long jobs, so a lapse doesn't make the sub uninsured for part of the year.
- **At audit time:** Have a list of every sub with the amount paid and the work done, and a certificate covering each one's dates of work. Invoices that separate labor from materials help when a sub is uninsured.
- **1099 workers:** Individuals paid on a 1099 without their own coverage are often treated as your employees for audit.
- **Temps and leased workers:** Workers from a staffing company or PEO may be covered under its policy. Keep its certificate and invoices; without them, the auditor may add the labor to your payroll.

7 DURING AND AFTER THE AUDIT

- **Walk the auditor through your operations:** Describe what each employee and subcontractor actually does. The auditor only knows what you show and tell them.
- **Ask for an exit review:** Before the auditor leaves or ends the call, review the payroll by class and the subcontractors they plan to charge.
- **Check the final audit:** Compare it to your records. Common errors are wrong classes, overtime not removed, insured subs charged as uninsured, and excluded owners included.
- **If you disagree:** Contact us right away. Deadlines can be short (some carriers allow 15 days). Identify the exact error, pay the undisputed amount, include your policy number, and attach supporting documents.
- **Avoid next year's surprise:** If payroll is growing, tell us during the year so the estimate can be updated, or ask about pay-as-you-go billing based on actual payroll.

General guidance only. Your policy, your carrier's audit rules, and your state's rules control. This is not legal or tax advice.

8 AUDIT PREP WORKSHEET

Fill this in before the audit and keep it with your records. Send us a copy if you would like us to review it.

BUSINESS NAME	POLICY NUMBER	POLICY PERIOD

AUDIT DATE / TYPE	AUDITOR NAME / PHONE	YOUR CONTACT FOR THE AUDIT

Payroll by type of work and state:

TYPE OF WORK / CLASS CODE	STATE	EMPLOYEES	GROSS PAYROLL ($)	OVERTIME PREMIUM ($)

Owners and officers:

NAME / TITLE	OWNERSHIP (%)	INCLUDED OR EXCLUDED	EXCLUSION FORM ON FILE (Y/N)	DUTIES

Subcontractors, temps, and 1099 workers:

NAME	WORK PERFORMED	AMOUNT PAID ($)	WC CERTIFICATE (Y/N)	COVERAGE DATES

CHANGES DURING THE YEAR (NEW WORK, NEW STATES, OWNERS ADDED OR EXCLUDED)

QUESTIONS BEFORE YOUR AUDIT?

Call Cory Washington & Co. at 702-803-8865. We can review your records and this worksheet before the auditor sees them, and help you dispute an audit you believe is wrong.

General guidance only. Your policy, your carrier's audit rules, and your state's rules control. This is not legal or tax advice.