



UNDERSTANDING THE PREMIUM AUDIT PROCESS

AUDIT

Employer Education Series

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Our Presenters

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Premium Audit

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What Is a Premium Audit?

At the end of your policy period State Fund conducts an audit to review your payroll and ensure that you are charged the correct amount of premium for the policy term.

Premium audits also update any details that may affect coverage and rates.

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Audit Requirements

It's Part of Your Policy

- Your policy contractually requires annual audits of any records that relate to the policy.
- State Fund conducts physical and voluntary audits by review of payroll reports and other business records.



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When Are Audits Conducted?

- Annual premium is \$10,500 or more
- Annual premium is less than \$10,500 - at sufficient intervals
- Contractors holding a C-39 license (Roofing) - includes a site inspection
- Exposure in high-wage construction classes - at least every three (3) years
- At any time when State Fund or the WCIRB decides it is necessary to review your payroll reports and other business records

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What To Expect

- You will receive a letter scheduling your audit.
- The audit may be performed at your location or at another agreed upon site, or via email/mail.
- Auditor reviews your records, employee job duties, business operations and ownership.
- State Fund will generate a final premium statement with a bill for premium due or a refund if you paid excess premium.

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How Are Premium Audits Conducted?



Virtual Audit

You will receive a letter outlining what you need to submit to complete the audit. Audit documentation can be submitted via mail, fax, email, or online portal.

On Site Physical Audit

You will be contacted by one of our Field Auditors to schedule an appointment to visit your business or your accountant's office to conduct the audit.

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State Fund Premium Audit Videos and Resources



Premium Audit Video

AUDITOR



Construction Industry Premium Audit Video



Premium Audit Resources on StateFundCA.com

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What Is Required for an Audit?



Required records include all your payroll bookkeeping records.

- Tax returns and forms
- Payroll journals
- Original timecards with start/stop times along with trade performed
- Cash disbursements
- Cash payments

Other records may be required.

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What Is Considered Payroll?

- Gross wages/salaries
- Commissions and bonuses
- Sick, vacation and holiday pay
- Overtime payments
- Market value of gifts
- Housing (when provided in lieu of wages)
- Employee contribution to pension or retirement plans
- Any substitute for money



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What Is NOT Considered Payroll



- Tips
- Meals
- Lodging (some lodging may be excluded)
- Overtime Excess
- Severance Pay
- Employer Contributory Payments
- Excluded Officers/Partners/Employees
- Employer matching funds to pension/retirement/cafeteria plans
- Automobiles & Travel
- Prevailing Wage Laws
- Internal Revenue Code 125 (IRC 125)

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Overtime Excess

- Premium costs include the straight time portion of paid overtime
- Straight time portion of overtime pay
Employee's hourly wage = \$10/hour
Overtime rate of pay = \$15/hour (time and a half)
Overtime excess = \$5/hour
- Does not include extra pay for swing or graveyard shifts



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Overtime Excess Continued



RYANN		OVERTIME EXCESS CALCULATION	
CHECK DATE 1/15		OVERTIME PAY=	\$300
HOURLY RATE OF PAY: \$20			
REGULAR HOURS: 40			
OVERTIME HOURS: 10		DIVIDE 300/3=	\$100
REGULAR PAY: \$800			
OVERTIME PAY: \$300		\$200 IS THE STRAIGHT WAGE	
GROSS PAY: \$1100		\$100 IS THE OVERTIME EXCESS	
		REPORTABLE WAGE IS GROSS PAY LESS OVERTIME EXCESS	
		GROSS PAY	\$1,100
		LESS OVERTIME EXCESS	(\$100)
		REPORTABLE WAGE	\$1,000

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Who's an Employee?



California Labor Code § 3351
California law provides that an "employee" include

"[E]very person in the service of an employer under any appointment or contract of hire or apprenticeship, express or implied, oral or written, whether lawfully or unlawfully employed."

California Labor Code § 3357
Presumption of Employment

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Employment Status

Employment Status Resource Center

Employees vs. Independent Contractor (IC) – It Matters to You



Chat with Us!

Assembly Bills 5 & 2257
Changed the applicable test in California to determine if a worker is an independent contractor



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Owner and Officer Coverage

Corporate Officers, Partners, LLC Managers and Members

- Payroll must be assigned to the classification that best describes their duties
- If officers directly supervise any employee, the payroll is assigned to the classification supervised
- Payroll is subject to minimum/maximum for policy year



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Standard Exception Classifications



Clerical Office Employees - 8810

- Engaged 100% in clerical activities with no additional duties
- Physical separation
- Not exposed to the operative hazards of the business

Salespersons, outside - 8742

- 100% of work time in the field calling on customers
- Outside salespersons on part-time basis with strictly clerical work while at employer's location
- Not exposed to the operative hazards of the business

Telecommuters - 8871

- Perform their work at least 51% of the time from home office or other office away from the employer's location
- Not exposed to the operative hazards of the business

Cannot divide a worker's payroll between Standard Exception classes and any other classifications.

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Family Member Coverage

- Family members employed in the course of the trade, business, or profession are employees (Labor Code § 3351)
- Payroll for relatives who work for the family business must be reported



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Independent Contractors

Independent Contractors status is determined on case-by-case basis

Documents to provide:

- Business license
- Contractor's license number and expiration date
- Written contracts
- Certificate of workers' compensation insurance



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Waiver of Subrogation



A **Waiver of Subrogation** is an endorsement that prohibits an insurance carrier from recovering the money they paid on a claim from a negligent third party or other insurance carrier.

State Fund offers:

- Specific Waiver of Subrogation
- Blanket Waiver of Subrogation

An audit picks up payroll for vendor-specific waivers of subrogation.

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Out-of-State Employees

If a California employer hires an employee in California to temporarily work in another state or country, the person is considered a California employee and payroll is included.



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Common Payroll Reporting Errors



- ✓ Time Records (with start and stop times)
- ✓ Not reporting bonuses, sick time, vacation, and holiday pay
- ✓ Not reporting wages of family members
- ✓ Misclassifying covered officers and partners, managers, or supervisors
- ✓ Miscalculating overtime excess
- ✓ Misidentifying Clerical and Outside Sales classifications
- ✓ Not reporting unlicensed contractors

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What If You Disagree With Your Audit?



- Contact your State Fund auditor
- Contact your Broker to assist with any questions
- You can also contact State Fund at: **(888) 782-8338**
- Gather supporting documentation

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Safety Support Unit:
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