

2022 Workers' Compensation Insurance Seminar

# The five Ws of premium audit

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### Agenda

- Address the why, what, who, where, when, and how of auditing
- What does an auditor want and need?
- Characteristics of payroll / What is "subject payroll"?
- Bonus talk
- Explore verifiable time records
- Wrap it up...what it all means

# Why do we audit?

...well...because we are required to!

All insurers in Oregon must complete audits of policies to meet regulatory compliance with OAR 836-043-0110 and ORS 731.244 & ORS 731.318

#### More: Why do we audit?

ORS 737.318 and OAR 836-043-0110

Oregon law requires that we establish a premium audit program for the following purposes:

- Achieve equitable charges and collect ratemaking data
- Focus audits on operations where reporting may be difficult
- Educate policyholders
- Establish a test audit program
- Provide an appeal process



# Why? Are those the only reasons?

We also ensure that the integrity of the system is upheld by:

- Verifying claims to class codes
- Inhibiting fraud
- Reinforcing confidence that similar risks are treated the same (fairness)
- Obtaining additional information on business operational changes

### Pop quiz

#### Why do we audit?

- a. Review safe working practices
- b. Collect ratemaking data
- c. Count the number of workers
- d. Public relations

#### What is a premium audit?

- A methodical and systematic physical examination of operations and records of account
- Description of business operations and employee duties based on an interview with the employer and observations of the premises and operations

# What else are we doing?

- Validating of the rate classifications
- Examining of accounting records
- Verifying of information and data
- Summarizing audit findings; adjustments and recommendations

#### Who does this work?

- SAIF premium auditors
- Fee or vendor auditors
- NCCI test auditors

### When is an audit performed?

- New account surveys and preliminary audits are performed at the beginning of a policy.
- Final audits are conducted at the end of a policy period or cancellation of a policy.

#### How do we schedule?

- Selection letters are sent.
- Schedulers will contact policyholders within 90 days of the date of the selection letter to set an appointment.
- Flexibility with appointment dates:
  - Territory for auditors is generally widespread.
  - Timelines set by our rating bureau (NCCI) must be taken into consideration.

#### Where is this going to happen?

- At your business location, SAIF office, or your accountant's office, electronically
- Premium audits average about 3 hours, but can take 30 minutes, a full day, or a full week.





#### What does an auditor need?

- Knowledgeable business representative
- Records ready and organized
  - Quarterly tax reports Federal 941, Oregon (OQ) and other states
  - Payroll journal
  - Worksheets used for payroll reporting
  - Cash disbursement journal or check register
  - Subcontractor information certificates of coverage, Contractors Board numbers, payment information, etc.
  - Ownership information

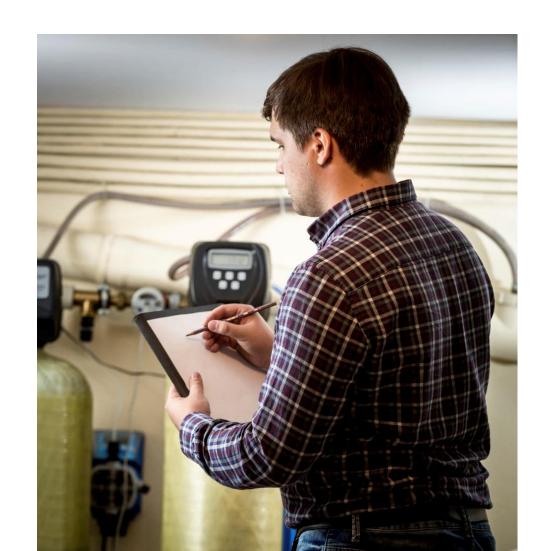
# An auditor may also need

- Verifiable time records
- Total acreage by crop farms only
- Job contracts and/or invoices
- Tax records (year-end)
- Employee files
- 1099s
- Industry-specific records



# Getting to subject payroll

- Reconcile gross payroll to payroll tax returns
- Subtract excludable payroll types
- Add includable payroll types not included in gross payroll



## What is payroll?

OAR 836-042-0055(1)(f)

(f) "Payroll" means money or substitutes for money that are payable to workers for their services and that are specified or defined by the rating system used by the insurer except that payroll may not include vacation pay, incremental pay recorded for overtime work, and payments excluded as provided in section (2) of this rule.

### Common includable payroll

#### Pay particular attention to:

- Paid time off PTO
- Sick, personal, holiday, or bereavement pay
- Casual labor
- Bonus or incentive pay
- Commission
- Value of housing provided to employee, including utilities

- Subject corporate officers to minimum payroll amounts
- Subject LLC members assumed wage amounts
- Assumed volunteer wages if volunteers are endorsed on the policy
- Other subject workers

# Common excludable payroll

- Excess overtime pay (pay above straight pay)
- Vacation pay
- Unanticipated bonus pay
- Owners who are exempt from the policy
- Severance pay
- Tips
- Third-party sick pay

- Saw rent logging class 2702 only
- Taxable portion of the following:
  - Personal use of company car
  - Company-paid life insurance
- Per diem maximum of \$75/day if no receipts are provided for outof-town travel

### Pop quiz

Which of these do auditors not need to complete an audit?



- a. Boxes and boxes of unsorted documents
- b. A knowledgeable business representative
- c. Payroll records, including quarterlies and summary sheets
- d. Any other documents requested such as VTRs, employee files, handbook, job contracts, and various other items

#### Oregon's sick leave law

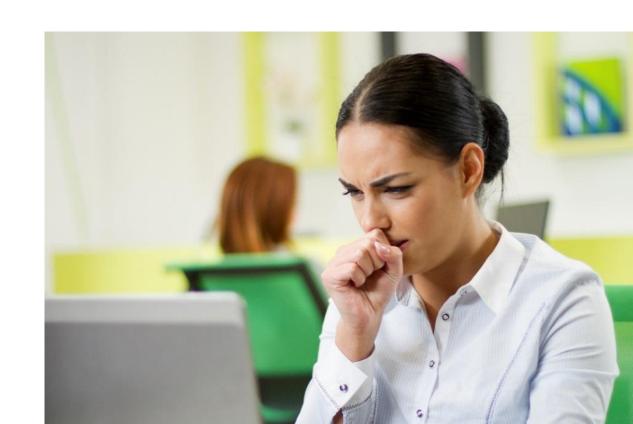
ORS 653.606

Effective January 1, 2016, the Oregon Legislature requires some employers to provide paid sick leave.

This new law has no effect on workers' compensation. OAR 836-042-0055(1)(f)

#### For workers' compensation:

include sick, personal time off, bereavement, holiday pay, and any other leave pay, except vacation



# Vacation pay

- Vacation pay is a specific exclusion for workers' compensation.
- Other types of pay that are not excludable:
  - Sick leave
  - Holiday pay
  - Bereavement leave
  - Personal leave



# Paid time off (PTO)

May exclude vacation pay to the extent that it is identifiable and summarized in a manner consistent with Oregon Administrative Rules

Include paid time off (PTO) - mix of vacation and sick (personal, bereavement, etc.)

**Vacation** - generally preplanned and not for medical issues; "an extended period of recreation, especially one spent away from home or in traveling"

### Pop quiz

#### Paid time off (PTO) cannot be excluded because:

- a. Very few companies have it.
- b. It is a mix of items and all may not be excluded.
- c. It includes vacation pay.
- d. It is only paid to executives.

# Bonus pay OAR 836-042-0055 (2)

An unanticipated bonus payment to an individual employee shall be excluded. A bonus payment is otherwise subject to inclusion in the premium basis if the payment is anticipated. A bonus payment is

#### Bonus payment is **unanticipated** if:

unanticipated or anticipated as follows:

- a. An arbitrary and gratuitous disbursement; and
- b. Not part of an oral or written employment agreement



#### Bonus pay

OAR 836-042-0055 (2)

# Bonus payment is **anticipated** (and should be **included**) if:

- a. Made to any one employee more frequently than twice in a policy period
- b. Offsets a pay cut or reduction in wages
- c. In lieu of a raise in wages
- d. Made to corporate officers/directors or limited liability company members with substantial ownership
- e. Related to meeting or exceeding pre-established production goals, or
- f. Related to absenteeism or attendance



#### Pop quiz

Which bonus may be excluded for premium calculation?



- a. Year-end bonus that shocked you silly
- b. \$50 quarterly bonus if you have no sick days
- c. \$100 bonus if you recruit a new employee
- d. Year-end bonus tied to performance indicators



#### Verifiable time records

OAR 836-042-0060

Verifiable time records are used to separate the payroll of workers who have exposure in more than one class.

- Establish a time basis hourly, daily, weekly, monthly, or a part thereof
- Created by employee or direct supervisor at, or near, the time the work is performed
- Include a description of duties

#### Verifiable time records

OAR 836-042-0060

In order to be verifiable, they must also:

- Contain job name or number if working away from your location
- Total the time worked in each class for a given pay period and convert to payroll dollars (Estimates or historical data cannot be used.)
- Allocate, on a prorated basis, the payroll for holidays, sick pay, and other forms of payroll that don't directly apply to a specific class

#### Description of duties

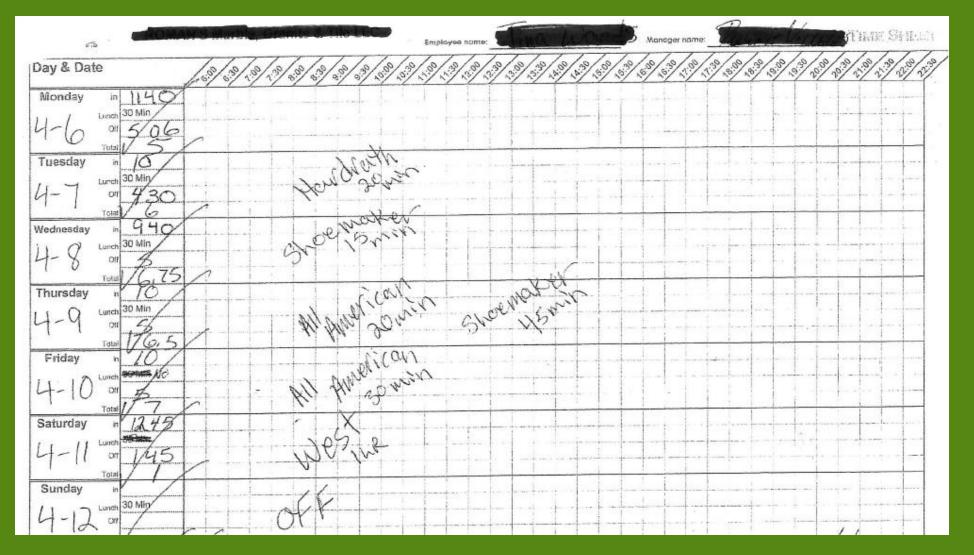
OAR 836-042-0060 (c)

"The records must include a description of duties performed by the employee, to enable the insurer to determine correct classification assignment. Records requiring additional explanation or interpretation are not considered to be verifiable..." Reporting to.

#### Name and pay period: John Baily 1/15-19/2016

Date	Job	Description	Class	Hours	Overtime
1/15/16	XYZ Co.	Install forms and rebar for foundation (commercial)	5213	8	
1/16/16	Oak St.	Install forms for foundation nonmonolithic and sidewalks (residential)	5215	8	
1/17/16	XYZ Co.	Install forms for parking lot (commercial)	5221	3.5	
1/17/16	Oak St.	Pour sidewalk (residential)	5215	4.5	
1/18/16	XYZ Co.	Pour foundation (commercial)	5213	8	1
1/19/16	Oak St.	Pour foundation (residential)	5215	8	

				Reportable			
Class	Hours	Overtime	Rate	Total	от х	Report	
5213	16	1*	\$20/\$30	\$350 -	\$10 =	\$340	
5215	20.5	0	\$20	\$410 -	0 =	\$410	
5221	3.5	0	\$20	\$70 -	0 =	\$70	
*Overtime pay is included at the straight pay rate.			\$830 -	<b>\$10</b> =	\$820		



**Descriptions not complete – what are they doing?** 

Does not account for what they did all day

Not acceptable as verifiable time records

6-May-09	AG	BG	,	AG BC	j A	G B	G
David	Nate	6.25	Tyler	6.25	Kenny	6.25	
Shop	Nate		2 Tyler		2 Kenny		2
Mark Care	Robert K	7	Troy	7	Evan	7	
Shop	Robert K		2.5 Troy		2.5 Evan		2.5
Grroup	Mike H	4.25	Louis	4.25			
Shop	Mike H		1.75 Louis		1.75		
Joseph	Randy		1.25 Monty		1.25 Jimmy		1.25
Elliot Elliot	Randy		2.5 Monty		2.5 Jimmy		2.5
Shop	Randy		1.75 Monty		1.75 Jimmy		1.75
Prestin	Henrikie	2	Brandon	2	Andrew	2	
Myra	Henrikie	1.25	Brandon	1.25	Andrew	1.25	
Shop	Henrikie		1.75 Brandon		1.75 Andrew		1.75
Split Wood	Dan		5 Sean		8.25		
John Common of	Kelly	2.75	Brian	2.75	Jake	2.75	
Shop	Kelly		2 Brian		2 Jake		2
Mechanic	Ricky S		8 Craig		8		
Bids	John T		8				
Stump grinder	Mike R	5					
Shop	Mike R		4				

- Descriptions not complete what are they doing?
- Explanation provided: AG=above ground, BG=from the ground
- Not acceptable as verifiable time records

1011	6	795 JANUS	re-hang door, patch, tape, mud
			texture wall
10/2	6	1600 QUINAT	PRIME + PANT BATH, PANT CLOSET
			DOORS, TOUCH UP WALLS, FIX CEILING
			PAINT W KITCHEN, PAINT VANITY
			AND DRAWERS, REMOVE PATCH
10/3	3.5	555 W. 8th 47	HANG NEW DOOR
10/4	Z	555 W 8N+ #7	TRM , MESOR/EXTERIOR, CAMIK
10/5	6	2429 MAER	REMOVE courte promo mudous,
			REPLACE THERMOSTAT, INSTALL
			Smoke Detectors, REPLACE WYDOW
1015	ı	1045 pork	ESTIMATE

- Descriptions include many tasks lumped together. Highest rate applies.
- Bookkeeper would assign classes (write next to description) and then summarize.
- Auditor would pull contract, bid, or job file to verify classification.
- If it tested out, would be acceptable to divide payroll.

DATE CUSTOMER  181 Deliver how FREE comb	JOB DESCRIPTION HAY & CROP WORK CONTRACT FARM WORK CATTLE WORK HAY & CROP WORK	83	#50 HRS	#83 HR9 4 W S
JRD Feed cours	CATTLE WORK	80 83		4 hrs
4TH de lar koy	HAY & CROP WORK  CONTRACT FARM WORK  CATTLE WORK	37 7 hrs. 50 83		4 45
Rench Tonk	CONTRACT FARM WORK	37 50 83		
Ranch Tour	CONTRACT FARM WORK	37 50 83		
BTH Feed cows	CONTRACT FARM WORK	37 50 83		443
office / shoo	HAY & CROP WORK CONTRACT FARM WORK CATTLE WORK	37 6 hcs 60 83		4 hrs
Field work	HAY & CROP WORK CONTRACT FARM WORK CATTLE WORK	37 7 hr s 50 83		4 45
Office	HAY & CROP WORK  CONTRACT FARM WORK  CATTLE WORK	37 6 4cs		4 4.5
10TH Feed cows	HAY & CROP WORK CONTRACT FARM WORK	37 6 hcs		
11TH Feed cons	HAY & CROP WORK CONTRACT FARM WORK	83 37 7 4 c S		4 25
12TH Feed cons	HAY & CROP WORK CONTRACT FARM WORK	93 37 4 WS		4 65
13111 Field werk	O 4 W PR PR 184	50 83		4 45

#### Time record

- Written descriptions do not tie to hours—not sure what is being reported in each class.
- They may be estimating—using 6 hrs/4 hrs consistently.
- 4th and 5th day—ranch tour—no hours assigned
- Office? Shop?
- Not acceptable as verifiable time records

187 Deliver how	JOB DESCRIPTION HAY & CROP WORK CONTRACT FARM WORK CATTLE WORK	37 50 83	7 hes	#50 HRS	#83 HRS
office	HAY & CROP WORK CONTRACT FARM WORK CATTLE WORK	-	6 hrs		4 hrs
JRD Feed cows	HAY & CROP WORK CONTRACT FARM WORK CATTLE WORK	37 50 83	7 hrs		4 45
Rench Tour	HAY & CROP WORK CONTRACT FARM WORK CATTLE WORK	37 50 83			
Ranch Tour	HAY & CROP WORK CONTRACT FARM WORK CATTLE WORK	37 50 83			
BTH Feed cows	HAY & CROP WORK  CONTRACT FARM WORK  CATTLE WORK	37 50 83			443
office / shoo	HAY & CROP WORK  CONTRACT FARM WORK  CATTLE WORK	-	é hes	- the same training	4 hrs
Field work	HAY & CROP WORK  CONTRACT FARM WORK  CATTLE WORK	37 50 83	hes		4 45
Office	HAY & CROP WORK  CONTRACT FARM WORK  CATTLE WORK	-	hes		4 4,5
10TH Feed cows load hay shop	HAY & CROP WORK  CONTRACT FARM WORK  CATTLE WORK		hes	****	4 4.5
de liver how	HAY & CROP WORK  CONTRACT FARM WORK  CATTLE WORK		Ars		4 65
12711 Feed cows	HAY & CROP WORK CONTRACT FARM WORK	-	lvs_		4 hs

#### Pop quiz

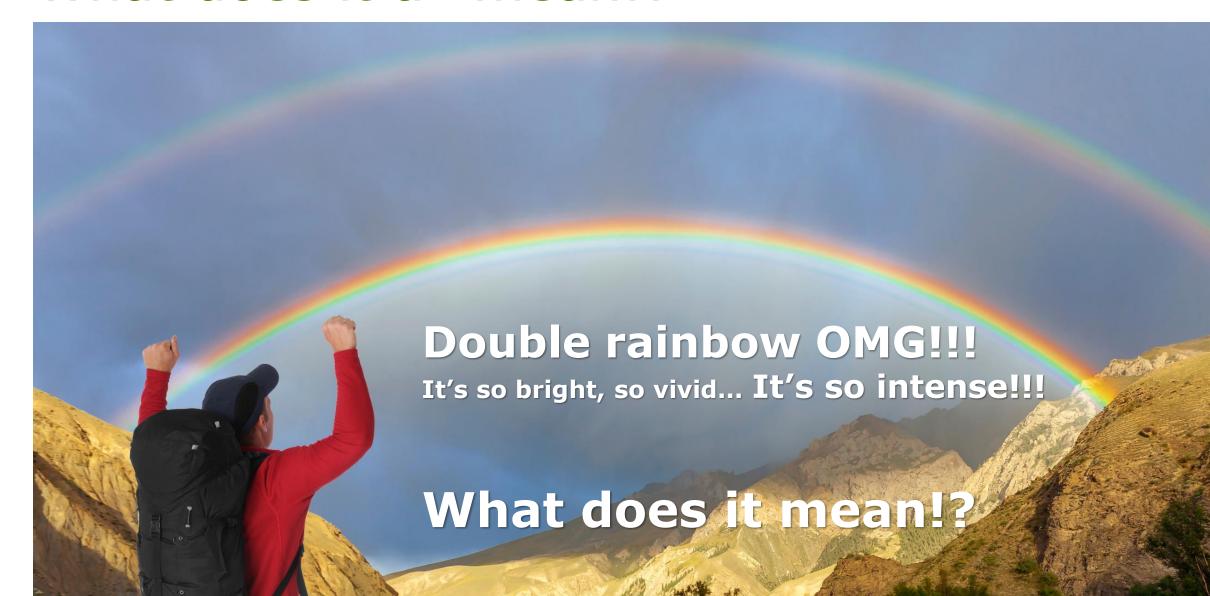
Why must verifiable time records be kept daily instead of summarizing at the end of the week?

a. At the end of the week the employee will just be thinking about the weekend.



- b. The records will be more accurate, since memories fade with time.
- c. The employee might not have the timecard with them on Friday.
- d. The law just wants to create more paperwork.

#### What does it all mean!?



#### Common reasons for differences

- Payroll overreported or underreported
  - Total gross payroll not used
  - Calculation/math errors
  - Audit disallows exclusions taken or allows additional exclusions.
- Reclassification of employees or policy
- Lack of verifiable time records
- Officers or owners misreported
- Uninsured contract labor

# Ways to ensure correct premium payment

- Establish true gross payroll
- Know what can be excluded
- Read the description for all the classes on the policy; Changes? New operations?
- Talk to your agent or SAIF representative
- Have employees keep verifiable time records
- Use licensed and insured subcontractors
- Information on saif.com

### Additional questions?

For more information or for additional questions, please contact your SAIF representative.

For more information see: www.saif.com



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