

# saif

Work. Life. Oregon.

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 out-of-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 unanticipated or anticipated as follows:

Bonus payment is **unanticipated** if:

- 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...”



## 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	

			<b>Reportable</b>			
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Class	Hours	Overtime	Rate	Total	OT X	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.				<b>\$830 -</b>	<b>\$10 =</b>	<b>\$820</b>



Day & Date		5:00	6:30	7:00	7:30	8:00	8:30	9:00	9:30	10:00	10:30	11:00	11:30	12:00	12:30	13:00	13:30	14:00	14:30	15:00	15:30	16:00	16:30	17:00	17:30	18:00	18:30	19:00	19:30	20:00	20:30	21:00	21:30	22:00	22:30				
Monday	in 11:40																																						
4-6	Lunch 30 Min																																						
	Off 5:06																																						
	Total 5																																						
Tuesday	in 10																																						
4-7	Lunch 30 Min																																						
	Off 4:30																																						
	Total 6																																						
Wednesday	in 9:40																																						
4-8	Lunch 30 Min																																						
	Off 3																																						
	Total 6:75																																						
Thursday	in 10																																						
4-9	Lunch 30 Min																																						
	Off 5																																						
	Total 17:5																																						
Friday	in 10																																						
4-10	Lunch <del>30 Min</del> 10																																						
	Off 5																																						
	Total 17:7																																						
Saturday	in 12:45																																						
4-11	Lunch <del>30 Min</del>																																						
	Off 1:45																																						
	Total 1																																						
Sunday	in																																						
4-12	Lunch 30 Min																																						
	Off																																						

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	BG	AG	BG
David [REDACTED]	Nate		6.25	Tyler		6.25	Kenny	6.25
Shop	Nate			2 Tyler			2 Kenny	2
Mark [REDACTED]	Robert K		7	Troy		7	Evan	7
Shop	Robert K			2.5 Troy			2.5 Evan	2.5
[REDACTED] Group	Mike H		4.25	Louis		4.25		
Shop	Mike H			1.75 Louis			1.75	
Joseph [REDACTED]	Randy			1.25 Monty			1.25 Jimmy	1.25
Elliot [REDACTED]	Randy			2.5 Monty			2.5 Jimmy	2.5
Shop	Randy			1.75 Monty			1.75 Jimmy	1.75
Prestin [REDACTED]	Henrikie		2	Brandon		2	Andrew	2
Myra [REDACTED]	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 [REDACTED]	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

10/1	6	795	JANUS	re-hang door, patch, tape, mud texture wall
10/2	6	1600	QUINART	PRIME + PAINT BATH, PAINT CLOSET DOORS, TOUCH UP WALLS, FIX CEILING PAINT IN KITCHEN, PAINT VANITY AND DRAWERS, REMOVE PATCH
10/3	3.5	555	W. 8TH #7	HANG NEW DOOR
10/4	2	555	W 8TH #7	TRIM INTERIOR/EXTERIOR, CAULK
10/5	6	2479	ANDER	REMOVE CAULK AROUND WINDOWS, REPLACE THERMOSTAT, INSTALL SMOKE DETECTORS, REPLACE WINDOW
10/5	1	1045	POUK	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	JOB DESCRIPTION	CODE	#37 HRS	#50 HRS	#83 HRS
1ST	Deliver hay	HAY & CROP WORK	37	7 hrs		
	Feed cows	CONTRACT FARM WORK	50			
	office	CATTLE WORK	83			4 hrs
2ND	Feed cows	HAY & CROP WORK	37	6 hrs		
		CONTRACT FARM WORK	50			
	office	CATTLE WORK	83			4 hrs
3RD	Feed cows	HAY & CROP WORK	37	7 hrs		
		CONTRACT FARM WORK	50			
	Deliver hay	CATTLE WORK	83			4 hrs
4TH	Ranch Tour	HAY & CROP WORK	37			
		CONTRACT FARM WORK	50			
		CATTLE WORK	83			
5TH	Ranch Tour	HAY & CROP WORK	37			
		CONTRACT FARM WORK	50			
		CATTLE WORK	83			
6TH	Feed cows	HAY & CROP WORK	37			
		CONTRACT FARM WORK	50			
		CATTLE WORK	83			4 hrs
7TH	Feed cows	HAY & CROP WORK	37	6 hrs		
		CONTRACT FARM WORK	50			
	office / shop	CATTLE WORK	83			4 hrs
8TH	Feed cows	HAY & CROP WORK	37	7 hrs		
		CONTRACT FARM WORK	50			
	Field work	CATTLE WORK	83			4 hrs
9TH	Feed cows	HAY & CROP WORK	37	6 hrs		
		CONTRACT FARM WORK	50			
	office	CATTLE WORK	83			4 hrs
10TH	Feed cows	HAY & CROP WORK	37	6 hrs		
	load hay	CONTRACT FARM WORK	50			
	shop	CATTLE WORK	83			4 hrs
11TH	Feed cows	HAY & CROP WORK	37	7 hrs		
		CONTRACT FARM WORK	50			
	Deliver hay	CATTLE WORK	83			4 hrs
12TH	Feed cows	HAY & CROP WORK	37	4 hrs		
		CONTRACT FARM WORK	50			
	Field work	CATTLE WORK	83			4 hrs
13TH						


# 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

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		CONTRACT FARM WORK	50			
	Deliver hay	CATTLE WORK	83			4 hrs
4TH	Ranch Tour	HAY & CROP WORK	37			
		CONTRACT FARM WORK	50			
		CATTLE WORK	83			
5TH	Ranch Tour	HAY & CROP WORK	37			
		CONTRACT FARM WORK	50			
		CATTLE WORK	83			
6TH	Feed cows	HAY & CROP WORK	37			
		CONTRACT FARM WORK	50			
		CATTLE WORK	83			4 hrs
7TH	Feed cows	HAY & CROP WORK	37	6 hrs		
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	office / shop	CATTLE WORK	83			4 hrs
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		CONTRACT FARM WORK	50			
	Field work	CATTLE WORK	83			4 hrs
13TH						

# 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!?



**Double rainbow OMG!!!**

**It's so bright, so vivid... It's so intense!!!**

**What does it 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](http://www.saif.com)



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