Understanding your workers' compensation audit

The word "audit" is a scary one for most people, but it doesn't need to be. The information offered below is intended to help your workers' compensation audit go as smoothly and accurately as possible.

All workers' comp policies are subject to audit by the insurance carrier, according to the terms of your policy. Basically, an end-of-policy-term audit assesses the accuracy of your paid premiums and policy coverage. Your carrier will contact you within 30 – 60 days of your policy expiration to arrange the audit. Workers' comp audits are not only a contractual obligation, but also a legal requirement in many states.

Audits can typically be done by phone, in person (called "field audits") or online. The auditor will ask for your payroll records and likely ask questions about your business. It's important to comply fully and accurately by supplying the requested information.

What the audit considers

Your payroll. A workers' comp audit reviews your payroll because your workers' comp premium is based in part on the amount of compensation, both money and benefits, that are paid to your employees over a policy term.

Your employee classifications. Your workers' comp premium also depends on job classifications. Make sure that you've assigned each of your employees a workers' comp class code that accurately reflects their work environment and level of risk. You may be charged a different premium if the audit finds that job roles have changed at your business.

What documentation you'll need

You'll likely be asked to supply information for your audit. Depending on your state, this may include:

- An accounting ledger
- Tax forms such as W-2, 1099, Form 941, Form 944 and your federal tax return
- Certificate of insurance for every subcontractor
- Detailed descriptions of each business function

How to work with the auditor

Have all the information the auditor requested organized and ready for review in time for the audit. Nothing expedites an audit process faster than complete, organized and accurate records. If the auditor can quickly find what they need, they may have fewer questions and requests for clarification. Have someone with full knowledge of the business available to answer the auditor's questions or respond to requests for information.
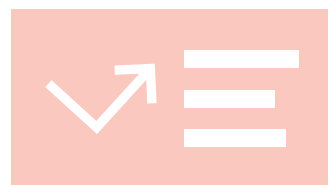
Reviewing (and potentially disputing) the audit report

You should, of course, review the audit report carefully when it's finished. You may have an audit variance that could require you to pay additional premium to cover the difference or receive a refund if you overpaid on your premiums.

Look for any clear errors, such as incorrect payroll figures, and for classification changes you might dispute. If you are unhappy with the results of an audit, contact your carrier immediately. Most insurers provide instructions on how to dispute an audit.
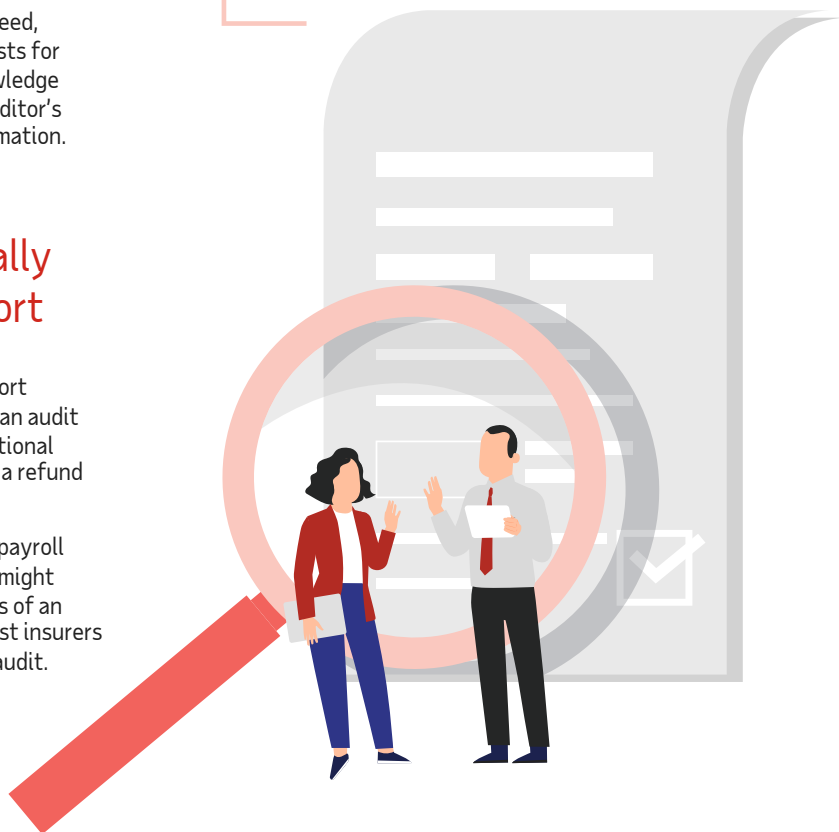
For more on how you can make managing your workers' compensation administration easier, contact a licensed agent with Automatic Data Processing Insurance Agency, Inc. (ADPIA®).

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