



**UNDERSTANDING THE PREMIUM AUDIT PROCESS**

**AUDIT**

Employer Education Series

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**Our Presenters**



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Senior Payroll Auditor  
Premium Audit



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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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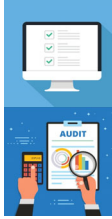
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### How Are Premium Audits Conducted?



**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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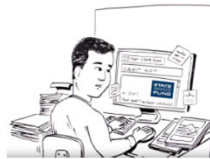
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### State Fund Premium Audit Videos



Premium Audit Video



Construction Industry Premium Audit Video

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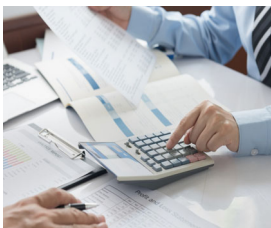
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### What Is Required for an Audit?



**Required records include all your payroll bookkeeping records.**

- Tax returns and forms
- Payroll journals
- Original time cards 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 Is Covered?



#### 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

#### Assembly Bills 5 & 2257

- Changed the test on whether a worker is an employee or independent contractor
- Effective for Worker's Compensation purposes on July 1, 2020

Employment Status Resource Center on [StateFundCA.com](http://StateFundCA.com)



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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
- ✓ 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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### State Compensation Insurance Fund

- Founded in 1914
- Not-for-profit, public enterprise fund
- Covering more than 100,000 employers
- Committed to providing workers' compensation insurance to all California businesses



Together, we'll keep California working

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**Thank you for making State Fund your carrier of choice**

Visit us at [StateFundCA.com](http://StateFundCA.com)

**Customer Support Center:**  
**(888) 782-8338**

For safety resources visit  
[SafeAtWorkCA.com](http://SafeAtWorkCA.com)

**Safety Support Unit:**  
**(800) 675-2667**



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