

Understanding the  
**Premium Audit**  
process



The Source for Workers' Compensation Insurance

[www.compsourceok.com](http://www.compsourceok.com)



## **A. The basics**

A premium audit is the most effective way to ensure the premium for workers' compensation insurance coverage is accurate. The purpose of the audit is to obtain and verify a business operation's actual payroll and exposures in order to calculate a final premium for the policy period. Workers' compensation premium is based on the estimated payroll that a policyholder predicts for a specified policy term. An audit can be conducted during or after expiration of the policy period.

### **A1. Types of premium audits**

- **Physical audit**

A CompSource Oklahoma auditor schedules an on-site visit to conduct a review of a policyholder's records at the place of business or at the office of the policyholder's CPA or bookkeeper.

- **Mail-in audit**

CompSource mails the policyholder a premium audit packet to complete and return with required documents.

- **Interim audit**

CompSource's auditor may schedule a quarterly or semiannual on-site visit to conduct a review of records during the course of the policy period.

## **B. Stages of an audit**

A CompSource Oklahoma premium audit consists of five stages.

### **STAGE 1. Audit entrance interview**

The entrance interview begins the audit process and allows the auditor to gather basic information about a policyholder's company such as:

- Company contact information, address, phone, fax, email and Web address
- Bookkeeper contact information
- Changes about the company during the policy period
- Additions or deletions to commonly owned businesses

- Officer information such as name, title, duties and ownership
- Average number of employees, and/or
- Description of operations

A tour of the policyholder's facility or access to any items that will assist the auditor in understanding business operations may be requested.

## **STAGE2. Examine and audit records**

The auditor will review a policyholder's records and documentation such as tax reports, payroll records, subcontract ledgers or journals, general ledger, check registers, certificates of insurance, affidavits and owner-operator documentation.

## **STAGE3. Follow-up questions during audit**

It is important to have someone who is knowledgeable about the company, its payroll and other such records available during the audit in case the auditor should have questions or need further clarification on an issue. Having the needed records and personnel available at the audit helps facilitate an easy and timely audit process.

## **STAGE4. Audit exit interview**

Upon completing the audit process, the auditor will discuss findings with the policyholder. This is an opportunity to clarify any issues or concerns that came up as a result of the audit. The auditor can answer any questions, as well as offer guidance on recordkeeping, audit requirements or possible policy changes. Enlist the auditor's help in clarifying any misunderstandings regarding the audit process.

## **STAGE5. Final audit summary**

Upon completion of the audit, CompSource will mail the policyholder an audit summary showing the final premium calculation for the policy term. This final audit summary is not an invoice and may not reflect premiums paid to date. Always refer to billing invoices to verify premiums owed to or refunded by CompSource.

## **C. Policyholder responsibilities**

Under the terms of the insurance contract and in order to verify the information for the premium audit, a policyholder must provide the auditor with access to any records necessary to complete the premium audit.

### **Records commonly requested:**

#### **Tax reports**

- OESC's and 941's for policy period
- 1040-Schedule C
- 1096's and 1099's
- Tax returns

#### **Payroll records**

- Name
- Gross wages for policy period
- Overtime (separated out)
- Job duty (classification if known)
- Tips, allowances, mileage, etc.
- Summary of monthly gross payroll

#### **Subcontract ledgers and journals**

#### **General ledger**

- Chart of accounts for computerized ledgers

## **Check register**

- Cash disbursements
- Check stubs
- Bank statements

## **Certificates of insurance from subcontractors or affidavits of exempt status**

### **Owner-operator documents required, if applicable**

- Copy of commercial driver's license
- Copy of registration or cab card
- Copy of business auto insurance policy
- Signed statement from owner-operator containing the following language: "I have no other employees and I'm the only driver of my vehicle. I control my own work activity schedule. The policyholder does not control my schedule. I have not paid any employee/employees or sub-contractor for labor performed for my business."

## **D. Remuneration**

Policy premium is based on the amount of payroll or "remuneration" paid for services performed by employees, uninsured subcontractors or casual labor. Remuneration means money or substitutes for money. Payroll is one type of remuneration. The following list details remuneration examples for premium audit calculation purposes.

- Employee wages
- Commissions, bonuses, and holiday, vacation and sick pay
- Overtime (straight time rate)
- Tax deferred payments (cafeteria or 401(k) plans)
- Rental value of a home or apartment furnished by the employer

- Allowances
- Tools, meals, utilities, housing and/or any other substitutes for money
- Per diem
- Payment to employees for any basis other than time worked (piece work, profit sharing for incentive plans)
- Payments to uninsured contractors and subcontractors
- Payments to miscellaneous labor
- Expense reimbursements that cannot be substantiated as a valid business expense

## **E. Officers, owners, partners or members**

Certain officers, owners, partners or members are automatically excluded from coverage. Their payroll will not be included for purposes of the premium audit. Election for coverage can be requested, in writing, at any time during the policy period with CompSource.

### **E1. Sole proprietors and partnerships:**

Sole proprietors or members of a partnership are excluded from coverage under Oklahoma's Workers' Compensation Act. Sole proprietors and partners may elect to be included for coverage through a policy endorsement. For those who choose a policy endorsement, a flat annual amount is assigned by CompSource for premium calculation purposes regardless of the amount actually earned.

### **E2. Corporate stockholder-employees:**

Stockholder-employees owning 10 percent or more of the company's stock are excluded from coverage under Oklahoma's Workers' Compensation Act; however, they can elect to be covered and be added to the policy by an endorsement. When stockholder-employees elect to be covered, their payroll for determining premium will be subject to CompSource Oklahoma's payroll minimum and maximum values in effect at the inception date of the policy.

Stockholder-employees owning less than 10 percent are considered employees and are automatically included in coverage. Their actual payrolls earned will be used for determining final premium.

### **E3. Limited liability members:**

Limited liability members owning 10 percent or more of the capital of the limited liability company are excluded from coverage under Oklahoma's Workers' Compensation Act. However, a limited liability member may elect coverage and be added to the policy by an endorsement. If election of coverage is requested, the payroll assigned for premium and audit calculation purposes will be subject to CompSource Oklahoma's flat annual amount, regardless of the amount actually earned.

Limited liability members owning less than 10 percent of the capital of the limited liability company are considered employees and are automatically included in coverage. Their actual payrolls earned will be used for premium and audit calculation purposes.

## **F. Contractors and subcontractors**

Oklahoma's Workers' Compensation Act requires employers to provide coverage for employees, as well as the employees of any uninsured contractors and subcontractors hired. CompSource must collect premium for anyone who is considered an employee or an employee of an uninsured contractor or subcontractor.

### **F1. Proper documentation**

To avoid being charged premium for payments made to the contractors whose services are utilized during the policy period, the policyholder must retain and provide the following:

- Proof of a valid workers' compensation insurance policy issued to the contractor or
- Proof that the individuals are exempt from Oklahoma's Workers' Compensation Act.

### **F2. A valid certificate of insurance**

Verify the dates shown on the workers' compensation certificate of insurance cover the time period in which the job was performed.

### F3. **Affidavit of exempt status form and fact sheet**

A completed exempt status fact sheet should be obtained from each contractor and subcontractor who does not have proof of a valid workers' compensation insurance policy. If completion of the fact sheet indicates they are an independent contractor, the affidavit of exempt status should then be properly executed by the independent contractor. A policyholder needs to verify the affidavit and fact sheet have been properly completed and notarized.

During the premium audit this documentation must be made available for CompSource's review to verify each contractor or subcontractor who claims to be exempt from coverage under Oklahoma's Workers' Compensation Act. It is important to note that because a contractor has completed the form and had it notarized does not, by itself, guarantee qualification as an independent contractor for workers' compensation premium calculation. Final determination will be made once the workers' compensation premium auditor reviews a policyholder's records and documentation.

### F4. **Points to note**

- Affidavit forms will be accepted, subject to verification.
- The affidavit is only valid for the contractor and may be rejected if the contractor is determined to be an employee.
- If the policyholder is unable to provide required documentation, then the contractor or subcontractor and his/her employees will be considered the policyholder's employees under Oklahoma's Workers' Compensation Act. The policyholder will be charged premium to cover the work performed by the uninsured contractor or subcontractor and his/her employees.
- If documents provided by the policyholder are determined to be invalid or not applicable, then the policyholder will be charged additional premium to cover the exposure.

## F5. **Factors used to determine employee or independent contractor status**

Many variables go into determining who is considered an employee or who qualifies as an independent contractor. An individual is more likely to be an independent contractor if the individual:

- has a federal identification number
- has a business license
- has filed papers that list them as a corporation or as a partnership
- performs work that involves a specialized skill or trade
- maintains his/her own place of business
- furnishes his/her own materials and tools to perform the work
- has a written contract with the policyholder that spells out the contractor/subcontractor relationship
- performs specific jobs for set prices agreed upon in advance and pays expenses incurred in connection with that specified job
- provides invoices for work performed
- has his/her own general liability insurance
- has other clientele
- has business cards or a telephone book advertisement

## **G. Questions**

Please contact CompSource Oklahoma with any premium audit questions or to request an affidavit of exempt status form at 405.232.7663, ext. 5528 or 800.347.3863, ext. 5528.

The affidavit of exempt status form is also available online:  
[www.compsourceok.com](http://www.compsourceok.com)

**Special note:**

This information is intended to serve as a guide on audit rules that may be helpful in preparing for a premium audit. This information is not intended to be all encompassing or inclusive of every possible audit situation. Please contact CompSource Oklahoma at 405.232.7663, ext. 5528 or 800.347.3863, ext. 5528 with additional questions.

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