



DIVISION OF SINGLE EMPLOYEE'S PAYROLL

EACH construction trade is separately classified. Often, one single employee may work in several construction trades. As a result, several different classification codes may apply.



Splitting an employee's wages between class codes for different construction operations may be allowed if accurate timecards are maintained. Timecards with number of hours worked in each trade, and a summarization of payroll in each classification code, are needed for all employees, even those who are paid piecework or salary.

Without this documentation, the Workers' Compensation Insurance Rating Bureau (WCIRB) Manual rules require all wages be included in the highest-rated class that applies to any portion of the employee's work.

CLASSIFICATION PAIRS

THE WCIRB classification system provides pairs of classifications that apply to some construction trades. Each classification in the pair describes the same job duties, but the assignment of the classification is determined by the employee's *hourly rate of pay*.



The WCIRB and the California Industrial Welfare Commission require employers to record their workers' start and stop times.

As a result of this requirement, State Fund's payroll auditors are required to verify each

employee’s hourly wage at the time of the audit through time cards, personnel records, and employee earnings records. We require original timecards if an employee works in a high-pay construction classification code, and these timecards must clearly show start, stop and break times, hours worked, job duties, and wage rates.



Payroll may not be divided by means of percentages, averages, estimates, or any basis other than specific time records.

The following is an example of a pair of classifications in the construction industry:

5183(1) - Plumbing-including shop-gas, steam, hot water or other pipe fittings installation - includes house connections installations – employees whose regular hourly wage does not equal or exceed 26.00 per hour.

5187(1) - Plumbing- including shop -gas, steam, hot water or other pipe fittings installation, including house connections installation -employees whose regular hourly wage equals or exceeds \$26.00 per hour. Assignment of this classification is subject to verification at the time of final audit that the employee’s regular hourly wage equals or exceeds \$26.00 per hour. The payroll of an employee whose regular hourly wage is not shown to equal or exceed \$26.00 per hour shall be classified as 5183(1), *Plumbing.*



If the employer does not maintain original timecards that show start, stop and break times, hours worked, job duties and wage rates, then the auditor must reclassify any employee working in the high-wage construction classification into the low-wage construction classification that best describes the work performed.

SUBCONTRACTORS

ALL subcontractors are required to have a valid contractors’ license. Unlicensed individuals who perform work requiring a contractors’ license are employees for worker’s compensation purposes. Policyholders should obtain a certificate of workers’ compensation insurance from all subcontractors who have employees of their own.



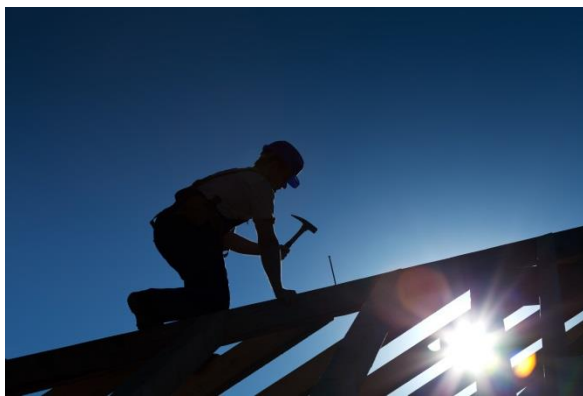
If a certificate of insurance from a subcontractor is not provided at time of audit and the subcontractor does not have a valid license, the subcontractor may be considered an employee for workers’ compensation purposes, and appropriate premium will be charged.

Premium for unlicensed or uninsured subcontractors will be based on the trades they perform and the amounts they are paid. The premium for uninsured subcontractors can be substantial, and proof of insurance and a valid license should be obtained and verified from subcontractors prior to using their services.

In order to determine subcontract labor, the auditor may review the following:

- Name of Subcontractor
- Contractors State License Number Licenses can be verified at the [Contractors State License Board](#)
- Certificate of Insurance covering the time period the services were provided (for subcontractors with employees of their own)
- General ledger or check registers and any records of cash pay

PHYSICAL INSPECTION FOR ROOFING



CALIFORNIA'S Insurance Code (IC §11665) requires workers' compensation insurers to perform an annual payroll audit for all contractors holding a **C-39** license from the Contractors State License Board. The audit must include an in-person visit to the contractor's place of business. If the payroll audit is conducted at an accountant's or bookkeeper's office, the auditor will also need to conduct a physical inspection of the work location listed on the policy or the yard or warehouse where equipment and tools are stored.

The auditor will need to review a *Profit and Loss* statement for the audit period for all roofing contractors.

WAIVER OF SUBROGATION

A waiver of subrogation is an endorsement added to your policy that prevents State Fund from recovering damages from the party named in the endorsement.

Your client may require you to provide a waiver of subrogation to limit the client's potential liability in the event one of your employees is injured while working on the client's jobsite. State Fund will assess an additional fee on the premium generated for all work performed for the client named on the waiver endorsement. Please provide a summary of payroll by employee and classification code for all work performed for the client's operations at the time of the audit.

If you have a blanket Waiver of Subrogation, State Fund automatically waives its subrogation rights against any of your clients when your job contract specifies that a waiver of subrogation is required. For the blanket waiver, State Fund applies a surcharge to the total premium earned on the policy; therefore, no additional information or special payroll summary is needed for the audit.

WRAP-UP INSURANCE



A wrap-up policy is an insurance policy that protects all contractors and subcontractors working on a large project. Some wrap-up policies only provide general liability insurance, while others provide general liability and workers' compensation insurance for the project. There are three types of wrap-up programs:

- **Owner-Controlled Insurance Policy (OCIP):** a wrap-up policy that is held by the property owner.
- **Contractor-Controlled Insurance Policy (CCIP):** a wrap-up policy that is held by the contractor.
- **Statewide Educational Wrap-Up Policy (SEW-UP):** a wrap-up policy that is held by schools and community college districts.



If the policyholder accepts a contract for a project that includes a wrap-up policy for workers' compensation, State Fund must be notified prior to the start of the project. With proper notification, State Fund will endorse the policy to exclude the project covered by the wrap-up insurance. This endorsement will prevent double coverage under the wrap-up and State Fund policies, and will allow the auditor to exclude payroll from that project from the State Fund audit. State Fund requires the following documentation to exclude coverage for a wrap-up project:

- A Certificate of Liability Insurance that shows proof of workers' compensation coverage under the general contractor's policy. The Certificate must show the following information:
 - The workers' compensation insurance carrier
 - The policy number
 - The policy effective and expiration dates
 - The certificate or the documentation in the Welcome Packet you receive from the wrap-up insurance carrier will indicate the project name and will indicate that it is a wrap-up project
- The physical address where work is performed for all jobs covered by a wrap-up policy for workers' compensation.

At time of audit, the auditor will require:

- Payroll reports showing the payroll and workers' compensation classification codes for work done on the wrap-up jobs. These payroll reports are usually submitted to the wrap-up insurance carrier monthly.

CONTRACTORS - EXECUTIVE LEVEL SUPERVISOR



The California Workers' Compensation Classification System, administered by the WCIRB, provides a classification for executive level supervisors of construction operations. The executive level supervisor is a manager who has very little exposure to field operations. Employers may qualify for this classification if they employ executive level supervisors of construction operations and the employer also maintains two levels of supervision between the executive level supervisor and the workers performing actual construction operations.



- The **first level supervisor** (sometimes called a foreman) has authority and accountability directly over the laborers. This first level supervisor **will report to a second level supervisor**. The first level supervisor is classified in the construction classification code that best describes the work they are supervising. If the individual is supervising various trades, multiple classification codes may apply, providing proper recordkeeping is maintained (see Construction Classifications section above). A **second level supervisor** has authority and accountability over the first level supervisor and reports directly to the executive level supervisor. The second level supervisor is classified in the construction classification code that best describes the work they are supervising. If the individual is supervising various trades, multiple classification codes may apply, providing proper records are maintained (see Construction Classifications section above).



To qualify for assignment to class 5606-*Contractors-construction or erection-executive level supervisors-no direct supervision*, the executive level supervisor must not engage in first or second level supervision of construction operations. A single employee's payroll may not be divided between class 5606 and any other classification code. If an employee performs any direct supervision or other job duties that cannot be assigned to class 5606, then all wages earned by the employee will be assigned to the appropriate construction classifications, providing proper recordkeeping is maintained (see Construction Classifications section above). Classification 5606 may also apply to construction supervisors who oversee operations where licensed subcontractors complete all phases of construction (sometimes referred to as "paper contractor"). The executive supervisor exercises control through the licensed subcontractor. If the policyholder hires unlicensed subcontractors, then classification code 5606 is no longer applicable.

For more information about Premium Audit, please visit our [website](#).

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