

# Advanced Premium Audit Topics



# Our Premium Audit Speakers



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# Purpose of 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
- Update any details that may affect your coverage and rates
- Confirm information for calculating your experience modification





# Audit Guidelines

## Workers' Compensation Insurance Rating Bureau of California (WCIRB) Guidelines

Annual premium is \$10,500 or more

Annual premium is less than \$10,500 - at sufficient interval.

Contractors holding a C-39 license (Roofing) - includes a site inspection

Exposure in high-wage construction classes - at least every three (3) years

# General Classification Rules

- **Single Enterprise Rule** - one classification that most accurately describes the entire business
- **Multiple Enterprise Rule** – separate classifications for operations that are physically separated and conducted with no interchange of labor



# Standard Exception Classifications



## **8810-Clerical Office Employees/8871-Telecommuters**

- Workers who are engaged 100% in clerical activities with no additional duties
- Cannot divide a worker's payroll between 8810 and any other classification

## **8742-Salespersons, outside**

- Employees who spend 100% of their work time in the field calling on customers
- Employees who act as outside salespersons on a part-time basis provided they perform strictly clerical work when working at their employer's location
- Not applicable to employees who may work in a non-clerical area

# General Classification Principles

- “Includes Clerical”
- “All employees”
- “By Contract for Others”
- Incidental operations in construction



# General Inclusions

Certain activities that are specifically included in all classifications and may not be separately classified

Examples:

- Manufacturing of containers e.g. bags, bottles, boxes, cartons, or packing cases
- Maintenance of the employer's buildings or equipment when performed by employees
- Printing e.g. printing instruction sheets or product labels
- Stamping, welding, drilling, blasting in connection with other construction or manufacturing operations
- Drivers and their helpers
- Supervisors





# Supervisor Inclusion

Supervisors that are directly responsible for the day-to-day operations would generally be classified the same as those they are supervising.



# General Exclusions

Certain operations present a unique exposure to hazard that is not common or prevalent in most industries. Employees engaged in these activities must be assigned to a separate classification.

## Examples:

- Aircraft operation
- New construction or alteration work (work that goes beyond facility maintenance or repair)
- Foundry operations
- Asbestos abatement
- Day care services if provided by the employer primarily for use by its employees' dependents



# Remuneration / Payroll

- Gross wages/salaries
- Commissions, bonuses, allowances
- Sick, vacation and holiday pay
- Overtime payments
- Market value of gifts
- Housing (in lieu of wages)
- Employee contribution to pension or retirement plans
- Any substitute for money



# What Is NOT Considered Payroll



- Tips
- Meals
- Overtime Excess
- Severance Pay
- Employer Contributory Payments
- Auto & Travel Reimbursement
- Employer matching funds to pension/retirement/cafeteria plans
- Internal Revenue Code 125 (IRC 125)
- Lodging (some lodging may be excluded)
- Some prevailing wage fringe



# Officer and Supervisor Payroll Inclusions

## Officer Inclusions

- Policy Years 2020 & 2021 Minimum \$54,600 / Maximum \$139,100
- Eff 9/2/2021 - Minimum \$58,900 / Maximum \$144,300

## Supervisor Inclusions

- Supervisors whose work is necessary, incidental or appurtenant to any operations of the business other than clerical office, **cannot be included in class code 8810-Clerical Office**

# Payroll Segregation

PAY ADVICE	
EMPLOYEE NAME	NUM
JOHN SMITH	64
PAYMENTS	27
BASIC SALARY	
OVERTIME	
BONUSES	
EXPENSES	

## Division of a Single Employee's Wages

- Wages may be divided between two or more classifications in accordance with the Multiple Enterprise rule or as directed by specific class footnotes or phraseologies

# Dual Wage Classifications



- Employers must keep daily time records showing employee's hours worked, including daily start and stop times and lunch breaks
- Hourly rate of salaried employees is calculated at 2000 hours per year, not daily time records

*For valid collective bargaining agreement with regular hourly wage rate by job class, an employee roster by job classification may be used in lieu of daily time records*

# 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





# Employment Status Determination

## The “ABC Test”

### Prong A

#### "Free from Control"

- The person (worker) is free from the control and direction of the hiring entity in connection with the performance of the work, both under the contract for the performance of the work and in fact.

### Prong B

#### "Outside the usual course of business"

- The person (worker) performs work that is outside the usual course of the hiring entity's business.

### Prong C

#### "Customarily engaged in business of the same nature"

- The person (worker) is customarily engaged in an independently established trade, occupation, or business of the same nature as that involved in the work performed.

# Employment Status Resource Center

## Employment Status Resource Center

The ABC Test

↳ Conditional Exemptions

The Borello Test

Policy Touchpoints

Audit Prep

AB 5-Who Is An Employee? (Webinar)

↳ Presentation Slides

Legislative Purpose- AB 5

## Employment Status Resource Center



### EMPLOYEE VS. INDEPENDENT CONTRACTOR (IC) - IT MATTERS TO YOU

Knowing whether an individual is an employee or an independent contractor (or subcontractor) is important. It ensures you have the correct coverage to protect your business.

Employment status affects your premium too. How much you pay for workers' compensation depends largely on how much employee payroll you have. ICs are not covered under workers' compensation so we don't include their payroll in the price of your policy. Correctly identifying the status of each individual working at your company can help you avoid unexpected insurance bills later.

#### DETERMINING EMPLOYMENT STATUS

California Labor Code defines "Employee" and dictates how to assess whether an individual is an employee or an IC. As of July 1, 2020, per Assembly Bill 5 ("AB 5"), a new test called the "ABC test" applies (excluding specific conditional exemptions) when determining employment status for workers' compensation purposes.

#### TIPS AND TOOLS TO HELP

Because employment status matters so much, we created resources to use as you ponder the "employee vs. IC" question. Follow the links on the left for insights on each topic, including helpful tips and tools.

For an in depth look at how AB5/AB2257 impacts your business, visit our **Employment Status Resource Center** on [StateFundCA.com](https://StateFundCA.com).

# Independent Contractors

Independent Contractors status is determined on case by case basis

Documents to provide:

- Certificate of Workers' Compensation Insurance
- Contractor's license number and expiration date
- Business license
- Copy of contract

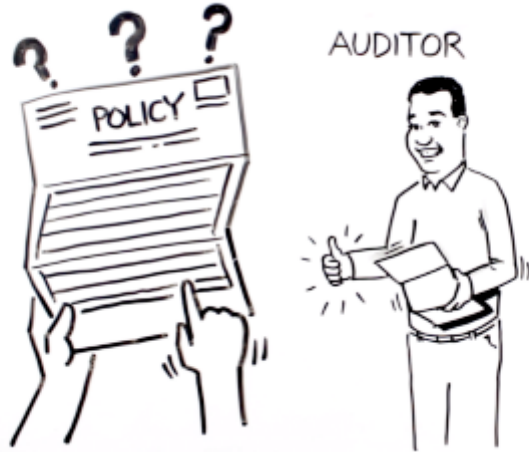


# What If You Disagree With Your Audit?



- Contact your State Fund auditor
- Contact your Broker to assist with any questions
- You can also contact State Fund at:  
**(888) 782-8338**
- Email your written statement along with copies of supporting documentation to [ADispute@scif.com](mailto:ADispute@scif.com)

# State Fund Premium Audit Videos



Premium Audit Video



Construction Industry  
Premium Audit Video

# Audit Resources

- Uniform Statistical Reporting Plan  
[WCIRB.com](http://WCIRB.com) > usrp.pdf
- WCIRB Class Search  
[WCIRB.com/class-search](http://WCIRB.com/class-search)
- WCIRB Remuneration Table  
[WCIRB.com](http://WCIRB.com) > pay-remuneration
- Contractors State License Board  
[CSLB.com](http://CSLB.com)
- Department of Consumer Affairs  
[search.dca.ca.gov](http://search.dca.ca.gov)

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

# 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**



**Thank you for choosing  
State Fund to be your  
workers' compensation  
carrier.**

**Visit us at [StateFundCA.com](https://www.StateFundCA.com).**

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

