

compUpdate

Understanding the audit process can help you ensure your business is properly classified and your premium is calculated as accurately as possible.

An audit is an examination of your business operations, records, and account books. The purpose of an audit is to look at these factors and adjust your workers compensation premium accordingly.

This edition of *compUpdate* focuses on some of the more common questions and issues raised by our policyholders about the audit process. If this newsletter doesn't answer a specific question you may have about the process or your audit, our professional, experienced audit staff can assist you. We have auditors in Boise, Coeur d'Alene, Lewiston, Twin Falls, Pocatello, and Idaho Falls.

To contact the Audit Department, phone (208) 332-2150 or e-mail audit@isif.state.id.us. You also can visit our Web site at www2.state.id.us/isif.



Why am I being audited?

Your premium was based on your *estimated* payroll at the beginning of your worker's compensation policy period. Your final premium is based on *actual* gross payroll and the class distribution of that payroll verified by an audit. In order to determine the actual gross payroll, we need to do an audit of some type.

Audits are standard procedure throughout the insurance industry as a means to ensure a policyholder pays the correct premium. As provided in the contract of insurance, policyholders agree to let us examine and audit all records that relate to a policy.

Audits are an integral part of the worker's compensation system. Premium audits help ensure integrity in the classification and rating system and verify that a business is properly classified.

What records are needed for an audit?

The auditor will need ledgers, journals, registers, vouchers, contracts, tax reports, payroll and disbursement records and programs for storing and retrieving data. The auditor will also ask for your file of Certificates of Insurance on subcontractors for the audit period. If the subcontractor is insured with the Fund, you may request a certificate by calling our Certificate Unit at (208) 332-2138 or 1-888-253-0149. If you do not know with whom the subcontractor is insured, please contact the Idaho Industrial Commission, Employer Compliance Division, at (208) 334-6000 or 1-800-950-2110. Be sure to verify that your certificate is for worker's compensation and not another line of insurance.

Types of audits

Mail Audit – All policyholders will receive a Renewal Payroll Report at the anniversary of the policy. You are asked to report your actual gross payroll, which we will use to generate a premium statement.

Phone Audit – Upon receipt of your Mail Audit/Renewal Payroll Report, a State Fund representative may contact you by phone to review your reported payroll.

Physical Audit – Each year, the State Fund conducts physical audits at the anniversary of the policy on approximately 25 percent of all policyholders. During a physical audit, a State Fund representative will visit you to review your records and operations. Certain industries experience more frequent physical audits due to specific job hazards and/or large fluctuations in payroll.

Close-Out Audit – This is the final premium accounting for canceled policies.

Pre-Audit – A State Fund representative may visit you near the inception of the policy to verify payroll information and to ensure your business is classified properly.

What is payroll?

Payroll is the key element in determining the premium to be charged for the policy. Idaho's rating organization, the National Council on Compensation Insurance (NCCI) provides insurance companies with this definition:

Basis of Premium – Total Remuneration

Premium shall be computed on the basis of the total remuneration paid or payable by the insured for services of individuals who could receive workers compensation benefits for work-related injuries as provided for by the policy.

A new policyholder may think "payroll" simply means the hourly wages paid to an employee. In the workers compensation system, "payroll" means "remuneration," and "remuneration" means money or substitutes for money. Current NCCI rules describe what is to be included and excluded as remuneration:

Inclusions

- a. Wages or salaries including retroactive wages or salaries;
- b. Total cash received by employees for commissions and draws against commissions;
- c. Bonuses including stock bonus plans;
- d. Extra pay for overtime work;
- e. Pay for holidays, vacations, or periods of sickness;
- f. Payment by an employer of amounts otherwise required by law to be paid by employees to statutory insurance or pension plans, such as the Federal Social Security Act;
- g. Payment to employees on any basis other than time worked, such as piecework, profit sharing, or incentive plans;
- h. Payment or allowance for hand tools or power tools used by hand provided by employees either directly or through a third party and used in their work or operations for the insured;
- i. The rental value of an apartment or a house provided for an employee based on comparable accommodations;
- j. The value of lodging, other than an apartment or house, received by employees as part of their pay, to the extent shown in the insured's records;
- k. The value of meals received by employees as part of their pay to the extent shown in the insured's records;
- l. The value of store certificates, merchandise, credits or any other substitute for money received by employees as part of their pay (refer to Exclusions below for certain fringe benefits [substitutes for money] not considered to be remuneration);
- m. Payments for salary reduction, employee savings plans, retirement, or cafeteria plans (IRC 125) that are made through employee-authorized salary reduction from the employee's gross pay;
- n. Davis-Bacon wages or wages from a similar prevailing wage law;
- o. Annuity plans;
- p. Expense reimbursements to employees to the extent that an employer's records do not substantiate that the expense was incurred as a valid business expense;

Note: When it can be verified that the employee was away from home overnight on the business of the employer, but the employer did not maintain verifiable receipts for incurred expenses, a reasonable expense allowance, limited to a maximum of \$30 for each such day, will be permitted.

- q. Payment for filming of commercials excluding subsequent residuals that are earned by the commercial's participant(s) each time the commercial appears in print or is broadcast.

Exclusions

- a. Tips and other gratuities received by employees;
- b. Payments by an employer:
 - (1) to group insurance or group pension plans for employees, other than payments covered by Inclusions f and m;
 - (2) into third-party pension trusts for the Davis-Bacon Act or a similar prevailing wage law, provided the pension trust is qualified under IRC Sections 401(a) and 501(a);
- c. The value of special rewards for individual invention or discovery;
- d. Dismissal or severance payments except for time worked or accrued vacation;
- e. Payments for active military duty;
- f. Employee discounts on goods purchased from the employee's employer;
- g. Expense reimbursements to employees to the extent that an employer's records substantiate that the expense was incurred as a valid business expense;
Note: Reimbursed expenses and flat expense allowances, except for hand or power tools, paid to employees may be excluded from the audit, provided that all three of the following conditions are met:
 - (1) The reimbursed expenses or expenses for which allowances were paid were incurred upon the business of the employer, and
 - (2) the amount of each employee's expense payments or allowances is shown separately in the records of the employer, and
 - (3) the amount of each expense reimbursement or allowance payment approximates the actual expenses incurred by the employee in the conduct of his or her work.
- h. Supper money for late work;
- i. Work uniform allowances;
- j. Sick pay paid to an employee by a third party such as an insured's group insurance carrier that is paying disability income benefits to a disabled employee;
- k. Employer-provided perquisites (perks) such as:
 - (1) Use of an automobile;
 - (2) An airplane flight;
 - (3) An incentive vacation (e.g., contest winner);
 - (4) A discount on property or services;
 - (5) Club memberships;
 - (6) Tickets to entertainment events.
- l. Employer contributions to salary reduction, employee savings plans, retirement, or cafeteria plans (IRC-125) - Contributions made by the employer, at the employer's expense, that are determined by the amount contributed by the employee.

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About NCCI, rating organizations

NCCI is Idaho's rating organization. Idaho's law requires all companies offering workers compensation insurance to be a member of a rating organization. A rating organization provides basic manual rates, rules, and classifications that all carriers must use. A rating organization determines rates on an actuarial basis by comparing payroll/premium to losses in each classification, then factoring in the carriers' expenses and profit.

Employee or independent contractor?

During a physical audit, the auditor will review your business relationship with persons or entities you engaged during the audit period. If the relationship is determined to be an employee, premium will be charged.

Idaho worker's compensation law defines employee and independent contractor as:

72-102 (11) "Employee" is synonymous with "workman" and means any person who has entered into the employment of, or who works under contract of service or apprenticeship with, an employer. It does not include any person engaged in any of the excepted employments enumerated in section 72-212, Idaho Code, unless an election as provided in section 72-213, Idaho Code, has been filed.

72-102 (16) "Independent contractor" means any person who renders service for a specified recompense for a specified result, under the right to control or actual control of his principal as to the result of his work only and not as to the means by which such result is accomplished. For the purposes of worker's compensation law, a custom farmer is considered to be an independent contractor.

Casual employment has been defined by the Idaho Supreme Court as employment that is only occasional or comes at uncertain times or irregular intervals and cannot reasonably be anticipated as certain or likely to occur or to become necessary. It is employment that arises only occasionally or incidentally and is not part of the usual trade or business of the employer. Casual employment was discussed in detail in the Spring 2000 issue of *compUpdate*. Please contact us if you would like a copy of this issue, or you can find it online at http://www2.state.id.us/isif/compUpdate/spring_2000.htm.

A determination of the actual nature of any employment relationship can depend upon a variety of factors, such as the NCCI manuals, Idaho Code, and applicable Idaho court decisions as applied to the facts in each relationship, including information provided by you as the policyholder. The best way to avoid paying unexpected premium on contractors is to obtain a certificate of insurance at the time you engage their services.

Most common error seen in an audit?

The most common error that our auditors see is in the area of overtime. NCCI provides the following on overtime:

The extra pay for overtime shall be excluded from the payroll on which premium is computed as indicated in (1) or (2) below, provided the insured's books and records are maintained to show overtime pay separately by employee and in summary by classification.

- (1) *If the records show separately the extra pay earned for overtime, the entire extra pay shall be excluded.*
- (2) *If the records show the total pay earned for overtime (regular pay plus overtime pay) in one combined amount, and time and one-half is paid for overtime, 1/3 of this total pay shall be excluded. If double time is paid for overtime and the total pay for such overtime is recorded separately, 1/2 of the total pay for double time shall be excluded.*

A few reminders on completing FROI

Filling out the First Report of Injury form completely and accurately can mean an easier claims process for all parties involved — the injured worker, the employer, medical providers, and claims examiners. Here are some tips and reminders about our FROI form.

Don't forget to include:

- Policy number. Providing the correct policy number is critical to assigning the claim to the proper business.
- The injured worker's Social Security number.
- The date of injury.
- If the injured worker missed work, please be sure to include the date the employee returned to work.
- Type of injury. Did the injured worker suffer a strain, lacerations, fractured bones, etc.?
- Injured workers address. Please include the employee's address even if he or she has had a previous claim. The injured worker may have changed addresses since an earlier accident.

Body part affected. Please specify left or right. Examples: left foot, right index finger, right shoulder, etc.

Organization codes. We receive a lot of questions about how to complete the organization code section. It is likely you don't use such codes and you don't need to provide this information. Organization codes are specific to an individual business and are established by the business, usually with the assistance of Fund risk management consultants. Organization codes allow a business to pinpoint injuries by department or work locations. This can help identify work locations or departments having safety problems.



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www2.state.id.us/isif/

ANTI-FRAUD HOTLINE 1-800-448-ISIF (4743)

Supplemental form available on Web

As well as providing our First Report of Injury form on our Web site, the Employer's Supplemental Report (IC Form 14) also is available. The e-mail Word form can be found at www2.state.id.us/isif/supplemental.doc. It should be completed and e-mailed to reportclaim@isif.state.id.us when any of the following occur:

- The injured worker has returned

to work regardless of the length of time unable to work.

- If the injured worker is unable to work for more than five days.
- The injured worker is unable to work after 60 days.
- An additional request may be made by the Fund's Claims Department when it is necessary to document information from a

physician or secure additional information to further assess the need for rehabilitation services.

In most cases, a printed form will be supplied by the claims examiner. However, the option of using e-mail to file the form is now available.

Do you have a designated medical provider?

If you have designated a medical provider for the initial treatment of work-related injuries and have informed employees where they can seek treatment, please complete this form and return it to us.

Name and address of your designated provider:

Do you have a written contract with your designated provider? Yes No

Your business name: _____

Policy number: _____

Please return this form to the State Insurance Fund, Attn. Paulette Boyle, PO Box 83720, Boise, ID 83720-0044, or call Paulette Boyle, Claims Management Supervisor, at 208-332-2410 or toll-free 1-800-334-2370, ext. 2410.