

# Audit

## Questions and Answers

### Why am I being audited?

Your workers' compensation costs are based on estimated payroll. At the end of each Fund year an audit must be completed to determine your actual payroll.

### How do I complete the Self Audit forms?

There is helpful information in the questions below regarding the self-audit report. However, there are more detailed instructions at the following link on how to complete the forms.

[CLICK TO VIEW INSTRUCTIONS](#)

### Who do I contact if I have questions regarding my workers' compensation classification codes?

You may contact the audit department to discuss how to classify your employees on the audit. If you have a change in operations, you should notify the Alabama Self Insured Worker's Compensation Fund or your Broker immediately – do not wait until audit.

### How do I know if I will receive a self-audit or if an auditor will contact me to schedule a physical audit?

The self-audits are mailed out the first week of January. A letter is mailed out the first week of January notifying the audit contact if your account has been assigned to a physical auditor.

### What payroll records will I be asked to provide for the audit?

In general, you will be asked for the Federal Form 940 and Form W-3 for a calendar year audit. For a part year audit, you will be asked for the state quarterly wages reports filed with the State of Alabama Department of Labor for the quarters concurrent with the audit period.

The information needed for each audit may differ. Examples of documents that may also be requested are W2s, payroll registers, individual earnings records, check registers, general ledger, sub-contractors' records, 1099s, 1096, etc. For an organization exempt from filing the Federal Form 940, the W3 will be sufficient. However, additional information may be requested by the auditor.

If your company participated in an Owner Controlled Insurance Program (OCIP) or wrap-up insurance program, we would need the certified payroll worksheets filed with the OCIP administrator as well as a certificate of insurance for the job.

If you have been selected as a physical audit, the auditor will contact you and provide you with a list of the information needed.

### If I have payroll in other states, what documents do I provide with my audit?

You should send each state's quarterly wage reports along with the W3, Federal Form 940 and Schedule A for a calendar year audit.

If your out of state insurance is through our partnering carrier, Sentry Insurance, then you need to send in each states quarterly wages reports for the quarters concurrent with your audit period.

If your out of state is not through Sentry Insurance, then you only need to send the State of Alabama quarterly reports concurrent with your audit period.

### What types of wages and benefits are to be reported in Total Gross Wages on the Self Audit Report?

You should report total gross wages before any deductions on the audit. Total gross wages before any deductions is the basis for contribution calculations – not net payroll. It is *important* that the audit balances to the provided payroll records. If there is a difference, please provide a reconciliation of the submitted figures on the audit to the payroll records. *For example, if you are completing a calendar year audit and your federal form 940 line 3 equals \$100,000, and the payrolls you report on the audit equal \$50,000, then please provide an explanation as to why the audit is \$50,000 less than the federal form 940 line 3.* The auditor will apply any excludable wages (explained below).

### If I use a payroll service, are there any other documents to send in lieu of the W3 and Federal Form 940?

Yes, a payroll report from your payroll service for the time period concurrent with the audit. The auditor may request additional information.

### What types of wages and benefits are included in the contribution calculation?

Types of wages and benefits included in the calculation are salaries, hourly wages, commissions, bonuses, vacation pay, holiday pay, sick pay, overtime wages, draws, 401K, Cafeteria Plan (IRC125), 403B, piecework, profit sharing, incentive pay, hand tool allowance, jury duty, housing allowance, etc.

### Is the employee's salary reduction for 401K/Cafeteria Plans included in the contribution calculation?

Yes, payments for 401K and cafeteria plans (IRC 125) that are made through employee-authorized salary reduction from the employee's gross pay are included in the contribution calculation.

### What types of wages and benefits are excluded from contribution calculation?

Overtime excess (explained below), tips, severance pay, payments for active military duty, work uniform allowance, sick pay paid to an employee by a third party, employer provided perks – use of company provided automobile, club

memberships, employer contributions to employee benefit plans, etc.

Also, officers of a corporation/LLC may opt to exclude themselves from coverage, their wages would be excluded from the audited contribution calculation. See below for how to report officers.

*\*Please note – all wage types should be reported on the audit. The auditor needs to be notified if any excludable wages and benefits are applicable. The excludable wages and benefits need to be clearly noted on the submitted audit. Additional documents maybe requested. The auditor will apply the exclusion of valid wages and benefits.*

#### **Is the employer's contribution to an employee benefit plan such as a 401K/Cafeteria Plan included in the contribution calculation?**

No, payments for 401K and cafeteria plans (IRC 125) that are made by the EMPLOYER are not included for workers' compensation contribution calculation. Be sure to identify these wages on the audit. Additional documents maybe requested.

#### **What is overtime excess, and how do I report overtime on the audit?**

Overtime excess is the portion of an employee's overtime wages that exceeds the regular rate of pay.

*Example: If your employee's hourly wage is \$10 and the overtime rate of pay is \$15 (time and a half), the overtime excess is \$5.*

You would report \$15 in the Overtime Wages column on the audit. The auditor will apply the deduction for the \$5 of overtime excess.

Overtime is normally reported at time and a half, however, if your company's overtime is reported differently please state so on the audit form.

#### **How should I report officers on the self-audit?**

The Self-Audit Report should include the total payroll for all employees, including the officers. All officers should be reported in the classification that best describes their job duties. They cannot be reported as clerical or sales unless they are confined to the work described in these classes. If they directly supervise, they must be reported in the classification supervised. There is a weekly minimum and maximum amount for corporate officers. The auditor will apply any deduction or addition of payroll to meet the minimum and maximum amount. These amounts change annually and are set by the National Council on Compensation Insurance. Corporate officers can elect to be exempt. The auditor will apply any exemptions in effect for the audit period. Partners and Sole Proprietors are automatically exempt until they file an election to accept the provisions of the Alabama Workers' Compensation Law. The auditor will apply letters of acceptance in effect during the audit period. *Be sure to notify the Alabama Self-Insured Workers Compensation Fund immediately if there has been any changes in ownership.*

#### **How do I know if the officers of the corporation or LLC members are exempt?**

An exclusion form must be completed and signed by the officer or LLC member and on file with the State of Alabama Department of Labor and the Alabama Self Insured Worker's Compensation Fund. Exclusions are made effective the 1<sup>st</sup> of the month following receipt. Contact your Broker on additional information regarding officer exclusions.

#### **What happens after the audit is complete?**

After an auditor has finished their review of your payroll information, you will receive an audit billing statement from the Alabama Self-Insured Workers Compensation Fund Billing Department that will provide you the results of the audit.

#### **How do I receive a copy of the auditor's worksheet?**

You need to send a request for the auditor's worksheet to [auditdept@employerclaim.com](mailto:auditdept@employerclaim.com). Due to confidentiality of payroll information, we can only release the worksheets to the audit contact.

#### **What if I disagree with the results of the audit?**

If you disagree with the results of an audit, you need to send in a letter outlining the areas of dispute to [auditdept@employersclaim.com](mailto:auditdept@employersclaim.com). Be sure to provide details of what you are disputing. An auditor will contact you upon receipt. Please do not delay in contacting the audit department if you dispute the audit. This is a time sensitive process. All information regarding the resolution procedure will be communicated to you.

#### **Do I need to pay the balance due if I have disputed the audit?**

Yes. If the audit is in dispute, you are still required to pay the amount due within 30 days from the date of the audit billing statement.

*We hope this information helps clarify the audit process. If you have any further questions regarding your audit, please contact us. We are here to assist you.*



Serviced By:

**Employer's Claim Management, Inc.**

**Audit Department**

**Phone: 334-277-9395**

**Toll Free: 1-800-392-1551**

**Fax: 334-834-9022**

**[auditdept@employersclaim.com](mailto:auditdept@employersclaim.com)**