

## How to Prepare for a Premium (Physical) Audit

The purpose of a workers' compensation premium (physical) audit is to apply a fair and consistent premium calculation system based on each individual member's operations, payroll, and accounting records. An accurate audit is a benefit to all members to validate that the correct premiums (contributions) are paid for the coverage provided.

Records typically reviewed include:

- CIS annual report form, typically referred to as the "Actual and Assumed Payroll Report," that lists your actual employee and assumed volunteer payroll by classification for the coverage period;
- All payroll records such as payroll journals, registers, and employee earnings records;
- Payroll tax reports (Oregon quarterly reports, Federal 940s and 941s);
- Verifiable time records for employees who interchange between two or more classifications;
- Check register, cash disbursements journal, or general ledger to account for vendor or subcontractor payments; and
- Volunteer registers, logs, and accounting records by individual, department, and classification.

Most important is your advanced effort in preparing for a premium audit. Difficulties in verifying your gross payroll, the itemized allowable exclusions and the net subject payroll by classification because of insufficient information will increase the time and effort necessary to accurately determine your premium. Without a proper reconciliation, the auditor may not be able to properly identify all exclusions and proper classifications for individual workers, which may increase a member's individual cost of workers' compensation coverage.

Many computerized payroll systems do provide workers' compensation summaries. However, it is extremely important to account for how your system works. A simple summary report by class of reportable payroll does not always verify how the report was created. Therefore, please take the time **to understand your system and document** how the "Actual and Assumed Payroll Report" filed with CIS at the end of each coverage year was actually calculated, itemizing all deductions by pay type from gross payroll, by classification. A proper reconciliation will resemble the following:

Report Date Range: 7/1/20** to 6/30/20**					
Employee	Hours	Gross Payroll	Excess Overtime	Total Vacation	CIS Reportable
<i>5506--STREET/ROAD DEPARTMENT</i>					
Smith, Kenneth E	2,040	42,301	2,635	2,774	36,892
Franks, Jason R	1,169	24,398	788	840	22,771
<b>Totals for Class 5506</b>	<b>3,209</b>	<b>66,699</b>	<b>3,423</b>	<b>3,614</b>	<b>59,662</b>
<i>7520--WATER DEPARTMENT</i>					
Lanz, Dennis D	484	6,889	367	254	6,268
Feer, Alec	294	5,231	340	154	4,737
<b>Totals for Class 7520</b>	<b>778</b>	<b>12,120</b>	<b>707</b>	<b>408</b>	<b>11,005</b>
<i>8810--OFFICE/CLERICAL</i>					
McCall, Charlotte L.	2,061	30,000	0	556	29,444
Nelson, Carol L.	2,065	33,000	0	111	32,889
<b>Totals for Class 8810</b>	<b>4,126</b>	<b>62,365</b>	<b>0</b>	<b>668</b>	<b>61,697</b>
<b>TOTALS</b>	<b>8,113</b>	<b>141,184</b>	<b>4,130</b>	<b>4,690</b>	<b>132,364</b>