AuditWorks
WORKERS' COMPENSATION AUDITING

Seven Ways Your Workers' Comp Audit Can **Go Wrong**

Adapted from an article by Kevin Ring of IWCP

1. The Ghost of Operations Past

If your business has changed but your classifications haven't, you could be paying high-risk rates for low-risk work. Always review your codes each year.

2. Mingling Overtime Pay

Most states allow you to exclude the overtime "half" from your premium, but only if your records clearly show regular pay and overtime separately.

3. Including Tips and Gratuities

Tips paid directly by customers aren't part of payroll. If your system doesn't separate them from wages, your premium will be higher than it should be.

4. Forgetting About Employee Benefits

Employer-paid benefits such as health insurance or 401(k) contributions don't count toward payroll, but they must be clearly itemized in your records.

5. Paying on Severance

Workers' comp premiums apply only to active employees. If severance pay isn't recorded separately, you could be charged for someone who's no longer on staff.

6. Not Separating Work Classifications

When employees perform both high-risk and low-risk tasks, track their time carefully. Without detailed records, auditors must assign all wages to the highest rate.

7. The Uninsured Subcontractor Trap

Hiring uninsured subcontractors can make their entire payment count as your payroll. Always request proof of coverage and detailed invoices that separate labor from materials.

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