



PHILLIPS STAFFORD
— INSURANCE GROUP —

Workers' Compensation Audit Guidebook

A Step-by-Step Resource for Small-to-Medium Businesses

Key Takeaways



Collect Certificates of Insurance

Collect COIs from all sub-contractors you hire. Don't let them work for you until you have their COI. Set a calendar reminder on the sub-contractor's policy renewal date to ask for a new COI with their renewed policy info.



Keep Accurate Financial Records

Keep accurate financial records including your revenue, cost of goods sold, sub-contracting cost, and employee payroll separated by the duties the employees are performing (Ex. separate payroll for lawn mowing and snow removal tasks).



Comply with the Audit

Comply with the audit to avoid substantial penalties.



Keep Federal Tax Forms

Keep federal tax forms that apply to your business like quarterly 941's, 943, 944, and W-3.



Your workers' compensation insurance premium is initially based on estimated payroll and job classifications. At the end of the policy period, your insurance carrier performs an audit to compare the actual payroll and operations against those estimates. The goal is simple: make sure you pay the correct premium for the coverage you received—no more, no less. This guide explains what happens during the audit, why it matters, and how you can prepare to make the process fast, accurate, and painless.

Why Does an Audit Happen?



Pay-as-you-go coverage

Workers' compensation is a "pay-as-you-go" coverage. Premium = Rate × Actual Exposure (usually payroll).



Reconciling estimates

Estimates are just that—estimates. An audit reconciles the estimate with reality.



Legal requirement

Audits are required by state law and the National Council on Compensation Insurance (NCCI) or your state's rating bureau.

When Will the Audit Take Place?



- Most audits occur **30–90 days after your policy expires**.
- You will receive an audit notice (by mail or email) with instructions and a due date.
- Voluntary audits (self-reported) are due within 30–60 days of the notice.
- Physical audits (where an auditor visits or calls) are scheduled at a mutually convenient time.

Types of Audits

Type	How It Works	Typical For
Mail / Online	You complete and return a worksheet with records	Small, straightforward businesses
Phone	Auditor calls you and reviews records together	Medium-sized accounts
Physical (On-site)	Auditor visits your location(s)	Large or complex operations

Records You Will Need ([Keep These Easily Accessible](#))

Provide records for the entire policy period (not just calendar or fiscal year).

Record Type	Why It's Needed	Acceptable Forms
Payroll Reports / Journals	Determines actual remuneration (exposure base)	Quarterly 941s, state unemployment reports, payroll register or third-party payroll service reports
General Ledger	Backup detail if payroll reports are summarized	Detailed ledger or export
Federal Tax Forms	Cross-check total wages	941s, 943 (agriculture), 944, W-3
1099s / Certificates of Insurance	To properly classify or exclude subcontractors	1099-NEC forms + certificates showing their own WC coverage
Cash Disbursements Journal	Identifies payments to uninsured subcontractors	Check register or accounting software export
Officer/Owner Payroll Records	Verify inclusion/exclusion elections are followed	Payroll records, Form D&O election/exclusion on file

Common Payroll Items & How They Are Handled

Item	Usually Included in Premium Base?	Notes
Gross wages, salaries, bonuses	Yes	
Overtime (the premium portion)	No – only straight-time rate	Example: \$30/hr overtime counted as \$20/hr
Severance pay	Usually Yes	
Meal & travel reimbursements	No (if substantiated)	Must have expense reports or accountable plan
Owner draws (sole prop/partner)	Yes (unless valid exclusion filed)	
Subcontractor payments	Yes , unless valid cert on file	Cost of labor only (not materials)



What to Expect During the Audit

01

Introduction

The auditor will introduce themselves and confirm the basics of your business operations, locations, and the nature of the work you perform.

03

Classification Verification

The auditor confirms that employees are assigned the correct class codes based on their actual job duties. Misclassifications are a common source of premium adjustments.

05

Calculation

The auditor computes the final earned premium based on the actual payroll data and verified classifications.

02

Review of Records

They will trace payroll figures from high-level tax forms (like 941s) down to your detailed payroll journals to ensure totals match.

04

Subcontractor Review

They will examine payments made to subcontractors and verify that you have valid Certificates of Insurance for each one, covering the entire period they worked for you.

06

Audit Statement

You will receive a copy of the final audit statement for your review. For physical audits, you may be asked to sign it. For other types, it will be sent to you.

After the Audit



Lower than estimated

If actual payroll was lower than estimated → You receive a return premium (refund or credit).



Higher than estimated

If actual payroll was higher → An additional premium invoice is issued (usually payable within 10–30 days).



Your rights

You have the right to review and dispute any item before the audit is finalized.



Tips to Make Your Audit Quick and Accurate

1

Stay organized

Keep quarterly payroll records, tax forms, and COIs organized by policy period, not calendar year. A dedicated folder is a great idea.

2

Manage certificates

Proactively renew subcontractor certificates before they expire. Set calendar reminders 60 days before expiration.

3

Respond promptly

Respond to the audit notice as soon as possible. Delays can trigger a less convenient physical audit or an estimated billing based on assumptions.

4

Ask questions

If you're unsure how a specific payment or employee role is treated, ask your agent or the auditor in advance. Clarity prevents surprises.

We're here to help. If you have questions about your upcoming audit or need assistance gathering records, contact your agent or our audit department before the auditor reaches out.

Thank you for insuring with us. Accurate audits protect both you and the insurance pool by ensuring everyone pays their fair share.