Premium Audit: A Quick Overview

Why, What, Who, Where & When

Why:

- Oregon law requirements (DCBS) & Regulator requirements (NCCI)
- Meet regulatory compliance- OAR 836.043.0110 and ORS 731–244 & 731–318
  - SAIF is required to annually audit 5% of all policies between $1,000 and $10,000
  - SAIF is required to audit all policies with an annual premium of $10,000 or more
- Exception: after two consecutive audits that produce a premium difference of less than 5%, then audits can be selected every third year
Why, What, Who, Where & When

Why:

- Collect ratemaking data (class codes on claims)
- Inhibit fraud
- Equitable and fair system
- Educate policyholders
- Obtain additional information

Why, What, Who, Where & When

Why:

When these situations occur or exist they create additional reasons as to why an audit maybe requested and performed:

- Claim in classification with no payroll reported
- Claim inconsistent with code assigned to employee on injury report
- Premium waiver on prior year
- Policies with a new classification added during the policy year
- All employee leasing companies

Why, What, Who, Where & When

What:

- A methodical and systematic physical examination of operations and records of account
- Description of business operations and employee duties based on an interview with the employer and observations of the premises and operations
- Validation of the classifications
- Examination of accounting records
- Verification of information and data
- Summation of audit findings; adjustments and recommendations
Why, What, Who, Where & When

What:
- SAIF Premium Auditors or vendor auditors

When:
- Final Audits—Expiration or Cancellation Date of the Policy
- New Account Surveys—No time frame, system selected after policy written and they can be selected by Underwriting
- Preliminary Audit—Prior to audit being written by SAIF and requested by Underwriting
- Revised Audit—Up to 3 years after policy expiration

Where:
- At your business location, SAIF office or your accountant’s office
- Premium audits average about 3 hours, but can take 30 minutes, a full day or a full week.
- Factors that determine how long an audit takes include:
  - Organization of records
  - Type and complexity of the risk (i.e. leasing company; colleges)
  - Size of the business
  - Prior audit history

Premium Audit Outcomes 2015 (7,469 Audits)
- 20% resulted in no premium difference
- 33% resulted in premium returned to customer
- 47% resulted in additional premium owing
Payroll-Remuneration

Payroll – Money or substitutes for money

- Common Types of Subject Pay
  - Wages and salaries
  - Straight-time portion of overtime
  - Holiday and sick pay
  - Pay for piecework
  - Incentive, sales, or production bonuses, other "anticipated" bonuses, gratuitous bonuses if paid more than twice in a policy period
  - Prevailing wages, including fringe benefit portion (with exceptions)

Payroll-Remuneration

- Common Types of Exempt Pay (must be shown separately in records)
  - Vacation pay
    - Oregon Special
    - Not PTO
  - Premium pay portion of overtime (extra half time pay or 1/3 total OT)
  - Unanticipated bonuses – gratuitous bonuses not paid more than twice in a policy period
  - Severance pay
  - Work uniform allowances

Payroll-Remuneration

- Prevailing wage fringe benefit, to the extent paid directly into a pension plan or group insurance plan
- Taxable value of personal use of a company vehicle, mileage reimbursements
- Payments from a third-party for sick or disability benefits

Visit www.saif.com for additional information.
Payroll-Remuneration

• Miscellaneous Payroll Inclusions:
  • Bereavement
  • Zone Pay
  • Portland Sick Pay Ordinance – effective January 2014
  • Commodity Wages
  • Current Market Value - Housing

Bonuses

• Anticipated Bonus-Included when:
  • Payment offsets a pay cut or reduction in wages
  • Paid in lieu of wages or instead of a raise in wages
  • Payment based on production goals
  • Payments related to absenteeism or attendance

  Note: Auditors will perform analysis to determine if bonuses are paid in lieu of wages or wage increases.

Bonuses

• Unanticipated Bonus-Excludable when:
  • Arbitrary and gratuitous (unwarranted)
  • Not paid more than twice in a policy period
  • Not part of an oral or written employment agreement
Bonuses

- Safety Bonus-Excluded when:
  - Payments are anticipated by the employee
  - Distributed in accordance with a written safety plan
  - Written safety plan needs to be tied strictly to “safe working practices”
  - Safety bonus payments based solely on not filing claims or reporting accidents are includable as subject payroll

Records Needed in an Audit

- Quarterly FICA (941’s) and state unemployment reports (form OQ)
- Payroll journals
- Worksheets used for payroll reporting
- SAIF Payroll Reports
- Payroll Exclusions that are summarized
- Cash disbursement journal—checkbook register, general ledger
- Subcontractor information — certificates of coverage, contractor board numbers, payment information, etc.

We May Also Need

- Verifiable time records (time cards, payroll & class summaries
- Total acreage by crop -- farms only
- Job contracts and/or invoices
- Tax records
- Employee files
- 1099s
- Industry specific records (i.e. sales-for store operations)
Labor Interchange

• Payroll Division & Verifiable Time Records
  • OAR 836.042.0060
    • The total subject payroll for each employee must be reported in the highest rated classification that applies to his or her work, unless daily verifiable time records are kept which show the employee’s number of hours in each eligible classification, and those records are used to divide the worker’s subject payroll between the applicable classes on an actual, time-worked basis.

Verifiable Time Records

• Records must establish a time basis – hourly, daily, weekly, monthly, or a part thereof.
  • Created by employee or direct supervisor at, or near, the time the work is performed.
  • Include a short description of the work performed for each class.
  • If working away from your location, note the job name or number for verification.
  • Total the time worked in each class for a given pay period and convert to payroll dollars. (Estimates or historical data cannot be used).
  
  Note: Allocate, on a pro-rata basis, the payroll for holidays, sick pay, and other forms of payroll that don't directly apply to a specific class.

Name & pay period: John Bailey 1/15-19/2016

<table>
<thead>
<tr>
<th>Date</th>
<th>Job Description</th>
<th>Class</th>
<th>Hours</th>
<th>Overtime</th>
<th>Rate</th>
<th>Reportable</th>
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</thead>
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<tr>
<td>1/15/16</td>
<td>Smith Tore off roof</td>
<td>5551</td>
<td>8</td>
<td>1</td>
<td>$20/$30</td>
<td>$320</td>
</tr>
<tr>
<td>1/16/16</td>
<td>NA Wrote up estimates in office</td>
<td>8810</td>
<td>8</td>
<td></td>
<td>$20</td>
<td>$160</td>
</tr>
<tr>
<td>1/17/16</td>
<td>Jones Estimate at Jones</td>
<td>8742</td>
<td>3.5</td>
<td></td>
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<td>$70</td>
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<td>NA Write up estimate in office</td>
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<td></td>
<td>$20</td>
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<tr>
<td>1/18/16</td>
<td>Smith Supervise roofing</td>
<td>5551</td>
<td>8</td>
<td>1</td>
<td>$20</td>
<td>$20</td>
</tr>
<tr>
<td>1/19/16</td>
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<td>0</td>
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</tr>
</tbody>
</table>

*Overtime pay is included at the straight pay rate.
There are over 500 classes available for use in Oregon. There are many classes in the Stipes Manual that have not been adopted in Oregon.

Some NCCI Basic Manual rules may have special assigned risk rules, notes or exceptions.

Each SAIF Class includes a four digit number (8810 for example) and then another two digits that follow (03 for example). The two digits are used to determine the description that is shown on your SAIF payroll report. Most classes have more than one option in order to provide a description that is close to the actual operations.
Classification Process

- NCCI Basic Manual – Rule 1

CLASSIFICATION SYSTEM

1. The purpose of the classification system is to group employers with similar operations into classifications so that:
   - The assigned classification reflects the exposures common to those employers
   - The rate charged reflects the exposure to loss common to those employers

2. Subject to certain exceptions, it is the business of the employer within a state that is classified, not separate employments, occupations or operations within the business.

Classification Process

Rule 1.D. CLASSIFICATION PROCEDURES

The purpose of the classification procedure is to assign the one basic classification that best describes the business of the employer within a state, subject to certain exceptions described in this rule, each classification includes all the various types of labor found in a business.

It is the business that is classified, not the individual employments, occupations or operations within the business.

1. Separate Legal Entities

Classification rules apply separately to each legal entity operating in a state even if multiple entities are insured under a single policy (SAIF insureds only one entity under a single policy).

2. Businesses Not Described by a Classification

If no basic classification clearly describes the business, the classification that most closely describes the business must be assigned.

Classification Process

Rule 1-(3)-Assignment of More Than One Basic Classification

More than one basic classification may be assigned to an insured who meets conditions a, b, or c below.

a. The insured’s principal business is described by a basic classification that requires certain operations or employees to be separately rated.

b. The insured conducts one or more of the following operations:
   - Construction or erection
   - Farming
   - Employee leasing, labor contracting, temporary labor services
   - Mercantile business

c. The insured conducts more than one operation in a state.
Classification Process-Rule 1-D(3)

(1) For purposes of this rule, an insured is conducting more than one operation in a state if portions of the insured's operations in that state are not encompassed by the classification applicable to the insured's principal business. To qualify for a separate classification, the insured's additional operation must meet all of the following conditions:

- Be able to exist as a separate business if the insured's principal business in the state ceased to exist.
- Be located in a separate building, or on a separate floor in the same building, or on the same floor physically separated from the principal business by structural partitions.
- Employees engaged in the principal business must be protected from the operating hazards of the separate additional operations.
- Maintain proper payroll records.

(2) If the separate additional operation is not encompassed in the classification applicable to the insured's principal business and meets all the conditions listed above in (1), the insured is considered to be engaged in an additional operation. If this is the case, a separate basic classification may be assigned to each operation that qualifies as a separate additional operation.

Classification Process

(3) If the additional operation does not meet all conditions listed above in c(1) and is not encompassed in the classification applicable to the insured's principal business and has a rate:

- Lower than the insured's principal business, assign the additional operation to the same classification as the insured's principal business.
- Higher than or equal to the insured's principal business, assign the additional operation to the classification that describes the additional operation.

(4) Policies with more than one classification may include employees working under several classifications. Payroll assignment for these employees is subject to the Interchange of Labor rule.

Note: If the insured does not maintain verifiable payroll records specific to the additional higher rated operation, then assign the principal and the additional operation to the higher rated classification.

Classification Process

- Construction or Erection Operations:
  Each distinct type of construction or erection operation must be assigned to the class that specifically describes the operation only if separate payroll records are maintained for each operation.
  - If separate payroll records are not maintained for any construction or erection operation, the highest rated classification that applies to the job or location where the operation is performed must be assigned.
  - If a construction or erection operation is included in the scope of another classification, a separate code must not be assigned.

- Farm Operations:
  A farm is defined as any parcel(s) of land used for the purpose of agriculture, horticulture, viticulture, dairying, or stock or poultry raising as a business or commercial venture.
  - If separate payroll records are maintained, a division of payroll is allowed for each separate and distinct type of commercial farm operation.
  - If payroll records of the farm classification are not clear, and separate payroll records are not maintained, the entire payroll of the farm must be segregated on the basis of proportionate acreages.
Classification Process

Each farm classification includes:

- All employees
- Drivers
- All normal repair and maintenance of buildings or equipment performed by the employees of the insured

Operations usual and incidental to a farm, such as:

- Maintenance of cows, hogs or chickens for family use
- A family orchard or truck garden
- Hay or grain crops raised for the purpose of maintaining work animals on the farm
- Outside domestic workers at the farm location
- Each farm classification excludes inside domestic workers at the farm location

Classification Process

- Mercantile Businesses
  A Mercantile Business is any store or dealer engaged in the sale of goods or merchandise, or in the sale of services.
  For mercantile businesses, the classification is assigned separately for each location.
  Store operations are classified based on the principal type of merchandise sold and whether the operations are wholesale or retail. For purposes of this rule, principal means more than 50% of gross receipts, excluding receipts derived from the sale of lottery tickets.
  The following definitions and instructions must be used to determine the appropriate store classification.
  (1) Type of Merchandise Sold
  If a store sells a variety of goods, each of which may be subject to a different classification, the store must be assigned to the classification that best describes the merchandise that generates more than 50% of the gross receipts.
  (2) Wholesale vs. Retail
  Retail applies to the sale of merchandise to the general public for personal or household consumption or use and not for resale.
  Wholesale applies to the sale of merchandise for resale to others, or sale to manufacturers, builders, contractors, or others for use in their business or as raw materials.
  (3) Combination of Retail and Wholesale
  A store that sells merchandise on a combined wholesale and retail basis must be assigned to the appropriate store classification depending on whether the majority of gross receipts come from wholesale or retail sales.
  (4) Warehouse Operations
  A store's warehouse, whether located at the same or separate location, is assigned to the code applicable to the store.
Classification Process

- 7. Repair Operations
  - Risks with shop operations that involve the repair of a product for which there is no repair classification are assigned to the classification that applies to the manufacture of the product, unless this repair work is specifically referred to by another classification, footnote, or definition in the manual.

- E. MISCELLANEOUS EMPLOYEES
  - 1. Miscellaneous employees who perform duties that are commonly conducted for separate operations that are subject to more than one basic classification must be assigned to the governing classification.

Definitions and other miscellaneous classification information:

NOC = Not Otherwise Classified

Example: Class 5403 - Carpentry NOC

There are two types of carpentry that are otherwise classified:

5437 – Finish Carpentry - Interior Only
5645 – Carpentry – Three Stores or Less

If the exposure is not specific to the two (5437 or 5645) then the NOC designation for class 5403 includes all other types of carpentry.

- Governing Class: The classification that includes the most subject payroll.
- Other States: While the NCCI Basic Manual and Scopes Manual are written for National use, there are exceptions and additional rules that affect the classification assignments specific to each state.

Classification Process

- Classification Resources –
  - In addition to the Basic Manual Rules, there is the Scopes Manual – it is a manual authored by NCCI to assist carriers (and others) with classification assignments. For each class they provide a narrative defining the exposures for the classification.
  - NCCI Inspections – upon request (and for a fee) carriers can have NCCI perform an inspection of a business to determine the proper classifications. This is primarily used for those businesses that are very difficult to classify.
Classification Process

If you disagree with a class code assigned to your policy, you may appeal.

The steps for resolving a dispute:

- Contact your SAIF representative to try to resolve the dispute.
- If you still disagree with SAIF’s position, send a written request to the regulatory services manager for the NCCI.
- If you disagree with the explanation provided by NCCI’s regulatory services manager, he or she will arrange for a meeting before the Oregon Workers’ Compensation Rating System Review and Advisory Committee (commonly known as ORAC) upon written notice of the ongoing dispute.
- ORAC’s dispute resolution service provides an opportunity for employers and insurance companies to resolve conflicts without the burden of legal fees and potential conflict. An employer who believes the rules or classifications of the workers’ comp system have not been properly applied to his or her policy can request assistance from ORAC in resolving the dispute.

Standard Exceptions

Standard Exceptions must be separately classified unless specifically included in a classification assigned to the business.

What classes are the standard exceptions:

- 8810 - Clerical Office
- 8742 - Salesperson Outside-No Delivery
- 7380 - Drivers/Chauffeurs/Messengers & Helpers

Class 8810 is properly assigned when all the following conditions are met:

- The basic classification(s) wording applicable to the business does not include clerical office employees (8832 & 8820 include clerical)
- Other rules do not prohibit the assignment of Code 8810
- The employee meets the duties, site and other requirements listed below:

Standard Exceptions

- (1) DUTIES: Duties must be limited to one or more of the following work activities:
  - Creation or maintenance of: Employer records, Correspondence, Computer programs, Files
  - Telephone duties, including telephone sales
  - Data entry or word processing
  - Copy or fax machine operations, unless the insured is in the business of making copies or faxing for the public
  - General office work similar in nature to the above

In Oregon, cashiering may be eligible for code 8810 if the employees do not:

- Handle, show, demonstrate, deliver or have any other exposures to products (example – car dealers)
- Is not involved in retail customer services
Standard Exceptions

• (2) SITE
  (a) The duties above must take place in a work station that is separated from the operative hazards:
  • Factories, Stores, Shops, Construction sites, Warehouses, and Yards, or any other work areas such as: work or service areas, areas where inventory is located, areas where products are displayed for sale, and areas to which the purchaser customarily brings the product from another area for payment
  (b) Work stations or service areas must be physically separated by:
  • Floors, Walls, Partitions, Counters, or other physical barriers that protect the clerical employee from the operating hazards of a business

Standard Exceptions

➢ 3) OTHER REQUIREMENTS
➢ (a) Employees who otherwise meet the requirements for Code 8810 will not be disqualified from assignment to this classification if they perform certain incidental non-clerical duties directly related to that employee's duties in the office. These duties include: Depositing of funds in a bank, Pickup or delivery of mail, Purchase of office supplies, and Entering an area exposed to the operative hazards of the business for clerical purposes, such as delivering paychecks
➢ (b) Employees who otherwise meet the requirements for Code 8810 will be disqualified from assignment to this classification if their duties involve:
  • Outside sales or outside representatives
  • Direct supervision of non-clerical employees not performed in an eligible site
  • Physical labor
  • Any work exposed to the operative hazards of the business, such as a stock or tally clerk, that is necessary, incidental, or related to any operations of the business other than a clerical office

Verbal Interview

• Complete description of business operations – tour of facilities
• Listing of all locations
• Listing of all related entities
• Job descriptions of employees
• Management structure
Tips for a Smooth Audit

• Assure certificates of insurance are for workers’ compensation not general liability. Resource: http://www4.cbs.state.or.us/ex/wcd/cov/index.cfm

• Keep copies of CCB#s for all subcontractors - www.ccb.state.or.us

• Accountants and payroll providers completing the payroll reports, please check with your client before you attempt to classify their payroll. If in doubt, have your client contact the prior SAIF auditor.

• Please have all check registers available for review, particularly if you perform payroll duties, but not complete bookkeeping services for your client.

• Detailed and summarized exclusions & inclusions

Common Reasons for Audit Differences:

• Payroll over or under reported. Total gross payroll not used; calculation/math errors.

• Reclassification of employees.

• Audit disallows exclusions taken, or allows additional exclusions.

• Classification on policy is incorrect.

• Officers are misreported

• Contract labor and lack of verifiable time records
Audit Appeal Rights  
OAR 836-043-0110

- Review all audit result information
- Call Auditor or Audit Dept. with questions
- Supply additional information
- Reserve appeal rights by contacting DCBS within 60 days – notify carrier of appeal
- Hearing Rights Change: 2013 - Allows customers to appeal revised audits
- Customer is financially obligated for additional premium
- Work with the carrier to resolve before hearing

Stay of Collections:

- Assigned Risk Policy (ARP)
  - A informal dispute of an audit will initiate a "stay of collections"
- Voluntary Policy
  - A formal request for a "stay of collections" has to be submitted to DCBS and DCBS needs to approve, before collection activities to cease.

Auditor Contact Information

- marwat@saif.com – Marcus L. Watson
- eriwill@saif.com - Eric Williams
- micsum@saif.com - Michele Summerlin
Thank You

• Questions: