



Dear Policyholder,

We hope this short guide will help you navigate the Premium Audit process with the least disruption to you and your business, and that it will help lead to a final premium that is an accurate reflection of your actual business operations. In the next few weeks, you can expect to hear from an auditor who Farmers has retained through a vendor to conduct your premium audit.

Why is it important to comply with premium audit?

It is important that you comply with your audit request in a timely manner. Late audits due to us not receiving the requested documents in a timely manner can possibly result in your policy being cancelled and/or in a audit noncompliant surcharge being added to the estimated premium amount due.

A final premium audit is required on all workers compensation policies regardless of the how the premiums are billed.

What documents and information do we need from you to complete your audit?

The following types of documents are required to complete your Premium Audit:

1. A **source document** showing payroll information during your policy period. Please see below "Payroll Information" table showing applicable source documents.
 - o For payroll reports, you can round to the first of the month (it is acceptable to deviate from the policy period by 15 days). For example, if your policy period is 7/14/19 - 7/14/20 you can provide payroll for 7/1/19 to 7/1/20.
2. One or more payroll **verification documents** that are used to validate reported payroll to the Federal and State governments. Please see below "Payroll Information" table showing applicable verification documents.

You are required to provide **one source document** and one or more of **verification records** for your Premium Audit for each policy period.

Here is the basic information that we need from you which we are hoping will be included in the source documents you are providing, but which we will need provided one way or another.

(1) Payroll information for owners, officers and employees.(2) Payroll information which includes the following (ideally, this information will be reflected in your payroll reports):

- Employee name
- Description of work performed (which may be different from the job title)
- State of employment
- Gross wages per employee



Payroll Information

For your audit period, please provide payroll information for all employees, owners, and officers including those who may have been terminated.

Source Document

Verification Documents



Payroll Documents. They must show:

- Gross Wages
- Tips
- Overtime
- Doubletime
- Section 125
- Other pre-tax deductions by employee for the current audit period.
- Audit period can be adjusted to the first of the month closest to your Policy Period, but no more than 15 days.
- For **California** construction policies, timecards and hourly rates must be made available to the auditor.

Below is a list of documents available from the various payroll providers:

ADP

- Payroll Summary
- Workers' Compensation Report
- Quarterly Wage and Tax Report

Paychex

- Workers' compensation report
- Employee Earnings Records

QuickBooks

- Payroll Summary
- Workers Comp Report

PeopleSoft –

- Payroll Summary

You may use Check Register if no payroll summary can be provided.



Required:

State Unemployment Wage Reports, please note forms vary by state.

For **California** the DE9C form, is the required form.

If you have employees please provide quarterly DE9C records

See exhibits for sample forms



<p>Additional Reports. Other reports that may be necessary to determine additional exposure are as follows:</p> <ul style="list-style-type: none"> – Other Expense section on General Ledger – Subcontractor Detail – 1099s if audit period is January 1 to December 31. – Certificates of Insurance showing Workers' Compensation coverage (see below for additional information) 	<p>Tax Report Option 1. If you have employees, provide one of the following:</p> <ul style="list-style-type: none"> – Employers Quarterly Federal Tax Return (<u>Form 941</u>) – Preferred – <u>W-2/W-3 Wage</u> and <u>Tax Statement</u> (this is best for calendar year audits due in December & January) – <u>State Unemployment Wage Reports</u>, please note forms vary by state.
<p>Using a bookkeeping services. If you use an accountant for bookkeeping service.</p> <ul style="list-style-type: none"> – Most bookkeeping services will be able to provide payroll information that will be sufficient for your premium audit. 	<p>Tax Report Option 2. If you do not file any of the above, provide one of the following:</p> <ul style="list-style-type: none"> – For <i>Sole Proprietor</i>, Profit or Loss (<u>Form 1040</u>) Schedule C Pages 1 and 2 – For <i>Partnerships</i>, U.S. Partnerships Return of Income (<u>Form 1065</u>) Page 1 and 1125-A – For a <i>Corporation</i>, U.S. Corporation Income Tax Return (<u>Form 1120</u>) Page 1 and Cost of Goods Sold (<u>Form 1125-A</u>)
<p>CONTRACTED LABOR INFORMATION <i>Provide payment information for all contracted and sub-contracted labor used during your audit period</i></p>	
<p>Provide a report with the following:</p> <ul style="list-style-type: none"> – Contract laborer/subcontractor name – Description of work performed – State in which work was performed – Date work started/ended within the policy term – Total amount paid – Cost of materials supplied 	<p>Provide Certificates of Insurance (COIs) for subcontractors with Workers Compensation coverage.</p> <p>If no Certificates, additional tests of independent status may apply.</p> <ul style="list-style-type: none"> – Definitions and requirements may vary by state. – Contact your agent with questions concerning your particular situation. – Additional tests of independent status may apply.



Here is some additional information that may help you better understand the Premium Audit process, and what information is needed and why.

What types of wages and benefits are subject to premium?

- Gross payroll serves as the basis of premium calculations, not net payroll. The date used for gross payroll consideration is the date the check was written, not the pay period. Retirements and pension plans where a reduced salary funds a pension or deferred compensation plan, are still subject to premium.
- When filling out the online audit form, gross wages should be reported. Total overtime and tips should be entered separately. There is no need to deduct tips or overtime, as the auditor will handle all the particular calculations that are applicable to your state.

Are contractors subject to premium?

- Independent contractor status is determined on a case-by-case basis. If your clients use contractors, they will be asked to supply some or all of the following information:
 - Business license
 - Certificate of workers compensation insurance
 - Contractor's license number

What qualifies as clerical (8810) and outside sales (8742) work?

Class code 8810 and 8742 are the most commonly misunderstood and misused when reporting payroll. The use of class code 8810 (clerical) can be subject to specific restrictions. It requires clerical employees to be physically separated from all other working areas and their duties must be restricted to general office work.

Class code 8742 is for outside sales employees which includes solicitation, collection activities and or meeting clients outside the office with the remaining of time spent is working in the office performing clerical duties. If they have other dues such as product deliver, we will be classifying them accordingly.

