



Reinsuring Minnesota  
Workers' Compensation  
Since 1979

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YOUR  
PREMIUM  
AUDIT  
MADE  
EASY

At the WCRA, we want to make the premium audit process easy for you.

That is why we created this step-by-step guide as a tool for you to successfully prepare for your WCRA premium audit. This brochure will take the guesswork out of the audit process and explain why a premium audit is necessary for both the WCRA and your organization. The checklist included with this guide identifies the majority of documents a WCRA auditor might need from you to complete the audit. It will also help you organize your records in preparation for the audit.



## What is a premium audit?

A WCRA premium audit is simply a means of reviewing a member's records and operations to ensure that the coverage information is accurate and complete. The goal of the audit is to calculate your organization's exposure in order to true-up premium paid from estimated to actual—no more and no less.

## Why is a premium audit necessary?

Premium for new members is calculated based on the projected payroll information received, and premium for existing members is calculated based on aged data from the last audit period. In order to ensure that your organization pays the correct premium for the coverage received, a WCRA auditor will compare the payroll that was projected at the inception of your policy to the actual payroll at the end of the policy term. Each policy term may be field-audited or the WCRA may rely on the annual adjustment self-audit data electronically submitted by each member annually.



There are three types of audits conducted by the WCRA.

- **Annual Adjustment Self-Audit:** Members are required annually to submit data through the WCRA annual adjustment reporting site. This information allows WCRA staff to true-up premium from estimated to actual.
- **Physical or Virtual Audit:** These audits are generally conducted either on-site or via the electronic exchange of data with the member and WCRA auditor every three years. Audits are scheduled with the member at the expiration of the policy year or cancellation of their membership.
- **Interim Audit:** These audits are generally conducted with the member and WCRA auditor during the course of the policy term. Interim audits are used to adjust a policy to reflect significant changes in business operations and/or payroll during the policy term. They are also conducted when a member requests (and is approved) to be considered a “hybrid” member. Hybrid members are usually trusts, group self-insurers, etc. which are typically audited on an annual basis due to the complexities of the hybrid member’s structure.

*The WCRA reserves the right to determine the method and frequency of premium audits.*

How do I prepare for a premium audit?

See the premium audit checklist on page 7 of this brochure for a complete itemized list of records needed during an audit.



How should my payroll records be organized for an audit?

In order to collect the specific payroll information needed to conduct an accurate premium audit, please have your payroll records organized in the following manner.

- **Policy Term:** The only records needed are those that reflect payroll for the policy term requested by the premium auditor.
- **Classification:** List each type of job separately (e.g., clerical, sales, etc.) according to the Minnesota Workers’ Compensation Insurers Association (MWCIA) job classification codes.
- **Jurisdiction:** The WCRA provides coverage solely for Minnesota, so only records covering Minnesota employment and exposure are required.
- **Overtime:** These records should reflect overtime paid to employees during the policy term.



## Who is considered an officer or official? Why is this important?

Officers of a corporation or unincorporated association are the president, vice president, secretary, treasurer, or any other officer appointed in accordance with the charter or bylaws of the entity. In general, officers are automatically included for coverage in Minnesota except certain officers of closely held corporations. Officers of closely held corporations who are automatically excluded may elect to be covered under the law.

Self-insured members from public entities with elected and appointed officials are eligible for coverage. Records will be needed if the governing body of the political subdivision has adopted an ordinance or resolution indicating the entity's intent to cover elected and/or appointed officials.

It is important to identify officers and officials because payroll for these groups of individuals is included in the payroll reported for the calculation of premium subject to annual minimum and maximum payroll value limitations annually set by the MWCIA. These limitations typically reduce the amount of payroll included in the calculation of premium.

## What is considered payroll?

## What is considered remuneration?

Payroll is the total amount of money paid to employees during a given time. Remuneration is the payment for goods received, services rendered, or losses incurred. The following records are required for both payroll and remuneration during a premium audit.

- Employee wages.
- Overtime.
- Commissions and bonuses, as well as holiday, vacation, and sick pay.
- Tax-deferred payments such as cafeteria plans, 401(k) plans, etc.
- Car or tool allowances (other than reimbursements).
- Insured sole proprietors, partners, officers, and/or public officials.
- Uninsured subcontractors.
- Actual expenses and miscellaneous labor.

## What if employees work in more than one classification?

In general, the WCRA assigns one basic classification that best describes your business. However, certain classes known as “standard exceptions” may be broken out, such as clerical workers, sales staff, drivers, etc.

In the construction trade, members are allowed to break out payroll among the various trades. For example, HVAC contractors may break out plumbing separately from electrical wiring. The breakout, however, must be a verifiable time breakout; **percentages are not allowed.**

It is the member’s responsibility to keep payroll records on a time basis and to be sure that the hours in each classification are accurately tracked. Although the breakout method may require additional recordkeeping, it is advantageous to the member because the WCRA auditor is required to assign all earnings to the classification with the highest rate if the member does not maintain a payroll breakout.

In either case, these records should be kept for auditing purposes.

Please contact the WCRA premium audit department at [premium@wcra.biz](mailto:premium@wcra.biz) or by calling 651.293.0999 and pressing 3 to speak with premium staff regarding job classification code questions.

## What do I need to know about subcontractor payroll?

For each subcontractor you hire who does not provide evidence of workers’ compensation insurance, additional premium must be charged on the contractor’s policy for the uninsured subcontractor’s employees according to Subcontractor Tables 1 and 2 below.

### **Subcontractor Table 1**

If the contractor has not furnished evidence of workers’ compensation insurance and

- a) furnishes complete payroll records of the subcontractor’s employees, the detailed payroll records will be used to calculate the premium.
- b) does not furnish complete payroll records, and the subcontractor price does not reflect a definite payroll amount, the full subcontract price of the work performed during the policy period by the subcontractor will be used to calculate premium.
- c) does not furnish items listed in a) and b) but does provide documentation of a specific job that discloses that a definite amount of the subcontract price represents payroll, the payroll amount designated on the documentation (subject to the minimums in Subcontractor Table 2) will be used to calculate premium.

## Subcontractor payroll? (continued)



### Subcontractor Table 2

- a) If the job involves mobile equipment with operators (such as, but not limited to, earthmovers, graders, bulldozers, etc.), then the minimum used to calculate additional premium is not less than 25 percent of the subcontract price.
- b) If the job involves labor and material, then the minimum used to calculate additional premium is not less than 50 percent of the subcontract price.
- c) If the job involves labor **only**, then the minimum used to calculate additional premium is not less than 90 percent of the subcontract price.
- d) If the job involves piecework, then 100 percent of the subcontract price is used to calculate additional premium.

Vehicles with drivers, chauffeurs, or helpers who are entitled to benefits under workers' compensation insurance law may be engaged under verbal or written contract. The amount used to calculate the premium is based on the information available.

- If payroll can be obtained, the total must be included with the member's payroll.
- If payroll cannot be obtained, 25 percent of the total contract price for the vehicle must be included on the member's payroll.
- If the contract price does not include the cost of fuel, maintenance, or other services provided to the owner under the contract, the value of these goods and services must be added to the contract price before determining the 25 percent amount.
- If a subcontractor claims to be insured, obtain an original version of the Workers' Compensation Certificate of Insurance. A written statement from the subcontractor is not adequate proof of coverage.

Keep original Certificates of Insurance (not photocopies) on file, as WCRA auditors will review them during the audit. Be sure that the period of coverage on the Certificate matches as closely as possible with the period when the work was performed.

## Be available for questions.

The officer of the business should be accessible to speak with the WCRA auditor to answer questions and review the results of the premium audit. If an officer is not available at the time of the audit, the auditor will need to meet with someone (e.g., director or division manager) who has a thorough knowledge of the business operations.

## Audit results and confidentiality.

All information obtained will be kept in strict confidence and used by WCRA staff for the purpose of the audit. You will receive an audit report from the WCRA shortly after the premium audit is completed.

## What if I disagree with the results of the premium audit?

If you disagree with the results of your audit, you may formally dispute the audit by providing written documentation regarding your specific issues or concerns. Fax your document to 651-229-1818 or mail it to:

WCRA  
Premium Audit Department  
Suite 1700  
400 Robert Street North  
Saint Paul, MN 55101



## Your premium audit checklist.

Refer to this checklist to assist you in gathering the necessary records for your premium audit. Please make available all records for the policy year(s) indicated by the WCRA auditor. These records include:

- Minnesota unemployment returns.
- Federal form 941 or 943.
- Federal form 940.
- Federal form 1099, W-2, and W3 transmittals.
- Individual payroll records including a breakout of any overtime.
- Benefit plan information such as cafeteria and/or 401(k) plan wages.
- List of corporate officers including names, job titles, and wages.
- General ledger, check register, and/or cash disbursements.
- Verifiable payroll breakdown for construction classification.
- Sales and cash receipts journals.
- Contractor and subcontractor records.
- Certificate of workers' compensation insurance for all subcontractors.
- Job cost records, contracts, and work invoices showing type of work performed.



## Questions? Call us!

If you have any questions concerning your premium audit, please contact Peter Foley at 651-229-1811 for assistance. Or you may call the WCRA toll-free at 800-293-8006 and press 3 to reach the premium department.

Additional information is also available on the WCRA website.

