

Audit Preparation Checklist

To save time, utilize this checklist to prepare for your annual audit.

MEM follows the rules and regulations for determining workers compensation premiums established by the National Council on Compensation Insurance (NCCI) and approved by state insurance regulators.

To ensure we obtain the correct records before an audit, your auditor will contact you regarding a specific list of documents needed for your audit. To help you prepare, the following is a list of common record-keeping requirements. Your MEM auditor can help determine the specific records needed for your business.



PAYROLL RECORDS

For policies with employee payroll who file 941s

- Payroll summary, journal or book that includes employee name, gross pay, overtime pay and severance pay.
 - For employees working in other states, please provide payroll and hours by state.
- Employer's quarterly reports | IRS **Form 941**.
 - If Form 941 is not available the auditor may be able to use the state forms, the total page for the Form W-2, Form 940 or Form 943.

For policies without employee payroll who do not file 941s, please see the Subcontractors and Other Labor section for more information.



SUBCONTRACTORS AND OTHER LABOR

For any non-employees (1099 or non-W-2 workers)

- Records that show the names of subcontractors, what they are paid and the date of payment. Ex. Vendor summary report.
- IRS **Form 1099** and **Form 1096** can be used for annual policies.
- Workers compensation Certificate of Insurance (COI) for subcontractors.

The COI should cover the period when work was performed. You may need multiple years of certificates.



POSSIBLE DEDUCTIONS

Premiums may be reduced by deducting certain items from your overall payroll. Please list the following items separately:

- Overtime Premium
- Auto allowance
- Expense reimbursement – if incurred by an employee for the business of the employer
- Payments for active military duty
- Severance or dismissal pay – except for accrued vacation pay
- Third-party sick pay
- Tips
- Uniform allowance



RECORD KEEPING TIPS

- Classifications are assigned to the business, not by department or individual employee duties.
- Department totals are allowed – clerical and salesperson(s) should be shown individually with duties identified.
- Separate payroll by state
- Construction operations
 - NCCI allows construction contractors' payroll to be split between specific codes in many cases. Please see the additional class code notes below and check with your auditor for additional information.
 - If there is an interchange of labor, payroll must be shown separately by hours and dollar amount for the various construction trades (i.e., plumbing, electrical, excavation, etc.).
 - A split of wages by percentage is not allowed per NCCI.

CLASS CODE NOTES

- The following class codes cannot be split with any other code:
 - Clerical | Code 8810
 - Executive Supervisor | Code 5606
 - Outside Salesperson | Code 8742
 - Construction Job Site Salesperson & Estimators | Code 8720
- The following class code can only be used in full day increments:
 - Construction Yard | 8227



Questions? Contact your auditor or Premium Consultation at premiumconsult@mem-ins.com.