MERRILL INSURANCE AGENCY

FOR TRUCKING COMPANIES & SMALL BUSINESS OWNERS

Workers' Comp Audit Survival Guide

What the auditor looks at, the documents to have ready, the mistakes that create surprise bills, and a 7-point checklist that scores you as you go.

Protect the Empire — even if it's just you (for now).

IN THIS GUIDE

1. What an audit reviews
2. The 7 documents
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PART 1

What a workers' comp audit actually reviews

Your premium is set at the start of the policy using an **estimate** of your payroll. Once a year, your insurance carrier audits what really happened, using your actual payroll and job classifications, and bills or refunds the difference.

- Payroll records and total wages
- Employee classifications and job codes
- Subcontractor payments
- Certificates of insurance for subs

IF PAYROLL OR CLASSIFICATIONS ARE WRONG, YOU COULD OWE

- × Back premium and penalties
- × Reclassification charges
- × Possible policy cancellation

Why small businesses get hit the hardest

These four errors cause most of the surprise bills:

Guessing payroll at policy start

Estimate too low and you owe the difference at audit, sometimes thousands.

Misclassifying employees

A driver coded as clerical, or a laborer coded as office, changes the rate dramatically.

Missing subcontractor paperwork

No certificate of insurance can mean paying workers' comp on their payroll too.

Owner payroll not separated

Owner wages are often excluded or capped, but only when properly documented.

PART 2

The 7 documents to have ready

Gather these before the auditor arrives. When a document is missing, the carrier fills the gap with assumptions, and those rarely go your way.

1. **Payroll reports**
   Verifies total wages paid.
   Include every pay period and all bonuses.

2. **Form 941s and state unemployment reports**
   Cross-checks your payroll figures.
   These must match your payroll reports exactly.

3. **General ledger**
   Confirms who works in which role.
   Separate records by department or job type.

4. **Subcontractor payments**
   Shows your total exposure.
   Flag anyone you paid over $600 for the year.

5 **Certificates of insurance (COIs)**
Keeps you from paying premium on uninsured subs.
Collect it before you write the first check.

6 **Written job descriptions**
Supports your classification codes.
Detailed descriptions carry more weight.

7 **Overtime breakdown**
Makes sure premium is calculated correctly.
Only straight-time wages count toward premium.

> **Overtime tip:** the extra "half" of time-and-a-half is usually left out of the premium calculation, but only if your payroll records show overtime separately. If it's lumped in, you pay on all of it.

PART 3

3 mistakes that cost small businesses thousands

All three are preventable with basic record-keeping and a quick call to your agent before renewal.

MISTAKE 1

Misclassifying employees

Every employee gets a classification code that sets their rate. An office employee coded as a construction laborer, or a driver in the wrong code, can cost several times more than necessary.

FIX Review every classification code with your agent before the policy renews, not after the audit.

MISTAKE 2

Not tracking subcontractors

If you pay a subcontractor who doesn't carry their own workers' comp, and you don't have a valid COI on file, the carrier can charge premium on their entire payroll as if they were your employee.

FIX Make a current COI a firm requirement before paying any subcontractor.

MISTAKE 3

Underestimating payroll at policy start

If you estimated $200,000 in payroll but actually paid $350,000, you owe premium on the extra $150,000 at audit. Overtime, bonuses and mid-year hires are the usual culprits.

FIX Check actual payroll every quarter and tell us right away if you're running well over the estimate. We can adjust the policy before the bill builds up.

PART 4

Classification codes: the silent premium killer

The same dollar of payroll can cost very different amounts depending on the code it sits under. Most owners never see a mistake here until the audit bill arrives.

TYPE OF WORK	EXAMPLE CODE	RELATIVE RATE
Carpentry / framing (homes)	**5645**	High
Trucking, local hauling	**7228**	Moderate–high
Restaurant	**9082**	Moderate
Outside sales	**8742**	Lower
Clerical office	**8810**	Very low

Example codes are from the NCCI system used in Illinois. Indiana uses its own rating bureau, and exact codes and rates vary by state and carrier. Verify your codes with your agent every year.

PART 5

How to prepare: 5 steps

1 **Review payroll monthly**

Don’t wait for renewal. Monthly checks catch problems while there’s still time to fix them.

2 **Separate office and field payroll**

Keep clean breakdowns by job type. The clearer the records, the easier it is to defend your codes.

3 **Collect COIs up front**
Never pay a subcontractor without a current certificate of insurance on file.

4 **Track overtime separately**
The overtime premium only comes out of the calculation when your payroll shows it on its own line.

5 **Call us before the audit**
We can review your classifications before the numbers go to the carrier. One 15-minute call can save thousands.

PART 6

Red flags that invite a closer look

If any of these describe your business, it's especially important to be fully prepared.

- **Big payroll jumps from year to year**
  Can look like under-reporting in prior years. Be ready to explain the growth.
- **Heavy use of subs with missing COIs**
  Creates exposure and signals weak documentation.
- **Missing or inconsistent payroll records**
  When records are unclear, auditors make their own assumptions.
- **Fast growth or new types of jobs**
  New roles added mid-year may fall under different, higher codes.
- **941s that don't match payroll reports**
  Differences between tax filings and payroll suggest reporting errors.

> **Illinois & Indiana:** both states require most employers to carry workers' comp, and businesses in higher-rated work like construction, trucking, restaurants and retail tend to get the closest look at audit time. Small documentation gaps can turn into large premium adjustments.

PART 7 · TAKES UNDER 5 MINUTES

Your audit-readiness score

Check each statement that's true for your business today.

- [ ] **I separate office payroll from field or driver payroll**
  Needed for correct classification and premium.
- [ ] **I track overtime separately from regular wages**
  The overtime premium only comes out when it is documented.
- [ ] **I collect a current COI from every subcontractor before paying them**
  Without one, you may pay premium on their payroll.
- [ ] **My job descriptions match what employees actually do**
  Written descriptions support your codes at audit.
- [ ] **I reviewed my classification codes with my agent this year**
  Codes should be checked yearly or when duties change.
- [ ] **My payroll estimate at policy start was close to actual**
  Big gaps create the biggest audit bills.
- [ ] **I keep all audit documents organized in one folder**
  Organized records signal reliable numbers.

7 of 7	5–6	0–4
Audit ready	Minor cleanup needed	High risk: call us now

Not audit-ready? Call **815-230-1914** or book a free 15-minute review at **calendly.com/merrillinsurance/15min**. No obligation.

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