



FOR TRUCKING COMPANIES & SMALL BUSINESS OWNERS

Workers' Comp Audit SURVIVAL GUIDE

(Protect the Empire -- Even If It's Just You (for now).)

WHAT'S INSIDE THIS GUIDE

- What a workers comp audit actually reviews and why it matters
- The 7 documents you **MUST** have ready before the auditor arrives
- 3 common mistakes that cost small businesses thousands of dollars
- Classification codes -- the silent premium killer most owners miss
- A 5-step preparation plan to protect your business
- **BONUS:** Fillable 7-point self-assessment checklist

WHAT IS A WORKERS' COMP AUDIT?

A workers' compensation audit is an annual review conducted by your insurance carrier to verify that your premium was accurate -- based on actual payroll and employee classifications, not just the estimate made when your policy started.

The audit reviews four key areas:

- Payroll records and total wages paid
- Employee classifications and job codes
- Subcontractor payments and documentation
- Certificates of Insurance (COIs) for subs

If your payroll or classifications are wrong, you could owe:

- Back premiums and penalties
- Reclassification charges
- Policy cancellation

WHY SMALL BUSINESSES GET HIT THE HARDEST

Small businesses are disproportionately impacted by audit surprises. Here are the four most common errors that create unexpected bills:

Guessing payroll at policy start

- ! If your estimate is too low, you owe the difference at audit time -- sometimes thousands.

Misclassifying employees

- ! A driver coded as clerical or a laborer coded as office can cause dramatic rate differences.

Missing subcontractor documentation

- ! No Certificate of Insurance means you may pay workers comp on their payroll too.

Not separating owner payroll correctly

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

AUDIT CHECKLIST: THE 7 DOCUMENTS

Before the auditor arrives, gather and organize these seven documents. Missing even one can result in the carrier making unfavorable assumptions about your payroll or classifications.

DOCUMENT	WHY IT IS NEEDED	PRO TIP
Payroll reports	Verify total wages paid	Include all pay periods and bonuses
941s / State Unemployment	Cross-check payroll figures	Must match your payroll reports exactly
General ledger	Confirm employee classifications	Separate records by department or job type
Subcontractor payments	Determine total exposure	Flag anyone paid over \$600 for the year
Certificates of Insurance	Avoid paying for uninsured subs	Collect BEFORE writing the first check
Written job descriptions	Confirm classification codes are correct	Detailed descriptions carry more weight
Overtime breakdown	Ensure correct premium calculation	Only straight-time wages count for premium

Important: The overtime PREMIUM portion is excluded from workers comp calculations. Only straight-time wages count. This exclusion only applies if overtime is tracked and documented separately.

3 COMMON AUDIT MISTAKES THAT COST SMALL BUSINESSES THOUSANDS

These three mistakes account for the majority of unexpected audit bills. The good news: all three are preventable with basic record-keeping and a quick call to your agent before your policy renews.

Mistake 1: Misclassifying Employees

Every employee is assigned a classification code that determines their rate. An office employee coded as a construction laborer -- or a driver coded incorrectly -- can cost 3-5x more in premium than necessary. Rates vary dramatically by risk level.

THE FIX: Review ALL classification codes with your agent before your policy renews, not after the audit arrives.

Mistake 2: Not Tracking Subcontractors

If you hire a subcontractor who doesn't carry their own workers comp and you fail to collect a valid COI, you may be required to pay premium on their entire payroll as if they were your own employee. This is one of the most common and avoidable audit surprises.

THE FIX: Make collecting a Certificate of Insurance a non-negotiable requirement before paying any subcontractor.

Mistake 3: Underestimating Payroll at Policy Start

Policies are written based on estimated payroll. If you projected \$200K but actually paid \$350K, you owe the difference at audit -- sometimes with penalties. Many business owners forget to account for overtime, bonuses, or new hires added mid-year.

THE FIX: Review actual payroll quarterly and notify Tremaine immediately if you are running significantly over your estimate.

CLASSIFICATION CODES: THE SILENT PREMIUM KILLER

Every employee is assigned a classification code that determines their workers comp rate. Even a single misclassification can result in significantly higher costs -- and most business owners never know it happened until the audit bill arrives.

Construction Framing 5645 HIGH	Truck Driver (Local) 7231 MOD-HIGH	Restaurant Kitchen 9082 MODERATE	Sales (Outside) 8742 LOWER	Clerical Office 8810 VERY LOW
---	---	---	---	--

Even small coding errors can cost 3-5x in premium. Always verify codes with your agent annually.

HOW TO PREPARE BEFORE THE AUDIT: 5 STEPS

- 1 Review Payroll Monthly**
 Do not wait until renewal. Monthly reviews catch discrepancies early and give you time to correct them before the auditor arrives.
- 2 Separate Clerical vs. Field Employees**
 Keep clean payroll breakdowns by job type. The more clearly you document who does what, the easier it is to defend your classifications.
- 3 Collect COIs Immediately**
 Never pay a subcontractor without a valid Certificate of Insurance. Make it a firm policy before the first check is written.
- 4 Track Overtime Separately**
 Auditors remove the overtime premium from calculations -- but only if it is clearly documented separately in your payroll records.
- 5 Call Tremaine BEFORE the Audit**
 Merrill Insurance Agency can review your classifications before numbers go to the carrier. One 15-minute call could save thousands.

RED FLAGS THAT TRIGGER MORE INTENSIVE AUDITS

Certain business characteristics cause auditors to look more closely at your records. If any of these apply to your operation, it is especially important to be fully prepared before the audit begins.

Large payroll increases year over year

Signals potential under-reporting in prior years. Be ready to explain any significant growth.

Heavy subcontractor usage with missing COIs

Creates significant exposure and flags poor documentation practices to auditors.

Missing or inconsistent payroll records

Auditors will make their own assumptions when records are unclear -- rarely in your favor.

Rapid business growth or new employee categories

New job types added mid-year may carry different and higher classification codes.

Inconsistent records between 941s and payroll reports

Discrepancies between tax filings and payroll suggest errors in reported wages.

Illinois-Specific Note:

Illinois audits are strictly enforced by the IDOL. Industries reviewed most aggressively include construction, trucking, restaurants, and retail.

Small documentation mistakes routinely become major premium adjustments. Do not go in unprepared.

Turn to Page 7 for Your Free Audit-Readiness Checklist

A 7-point self-assessment that takes less than 5 minutes.
Know exactly where you stand before the auditor does.

Quick Audit-Readiness Self-Assessment

Check each box that applies to your business right now

- I separate clerical payroll from field / driver payroll in my records**
Required for correct classification and premium calculation.
- I track overtime separately from regular wages**
The overtime premium portion is excluded -- but only if properly documented.
- I collect a valid COI from every subcontractor before paying them**
Without a COI you may be required to pay premium on their entire payroll.
- My job descriptions match the actual duties employees perform**
Written job descriptions support your classification codes during an audit.
- I have reviewed my classification codes with my agent this year**
Codes should be reviewed annually or whenever job duties change.
- My estimated payroll at policy start was reasonably accurate**
Large variances from the original estimate create the biggest audit bills.
- I keep a digital folder with all audit documents organized and ready**
Being organized signals to auditors that your records are reliable and complete.

Score: **7/7**
Audit Ready

5-6
Minor Cleanup Needed

0-4
High Risk -- Call Us Now

**Not audit-ready? Call Tremaine at (815) 230-1914
-- she'll review your policy for free.**

No obligation. No jargon. Just straight talk from a trusted Illinois insurance advisor.