



# THE PREMIUM AUDIT PROCESS

How we determine your  
workers' compensation premiums.





## ARE YOU HIRING INDEPENDENT CONTRACTORS?

If you hire someone to do work for you who is not your employee, you are required to supply the auditor with the following documentation:

- > A certificate of workers' compensation coverage *or*
- > An Independent Contractor Exemption Certificate issued by the Montana Department of Labor and Industry.

If you do not have this documentation, any payments made to these workers may be treated as wages, and that could cost you money. To access more information about the independent contractor law, go to [www.mtcontractor.com](http://www.mtcontractor.com) or call the Department of Labor and Industry at 406-444-7734.

If you have questions or need additional information, please call your auditor before the audit. For more in-depth details about the audit process, visit our website, [www.montanastatefund.com](http://www.montanastatefund.com), or call your team's customer service specialist at 800-332-6102.

## WHAT IS A PREMIUM AUDIT?

A premium audit is an examination of your business operations, records and account books to determine a fair and equitable charge for your workers' compensation coverage.

## WHY AN AUDIT?

Workers' compensation premiums are based on the type of work being done—called a classification—and the amount of wages or payroll for your employees. When you purchase a workers' compensation policy, you tell us what kind of work you do and estimate the amount of payroll you expect to have. At the end of a policy period, which runs one year, we need to determine your exact payroll in order to charge you the correct premium.

The premium audit verifies the correct classification and payroll of your business to ensure the integrity of rates. Rates for your business are determined by the total payroll and losses for all policyholders in your type of business. Misclassification or improper estimation of payroll will produce inaccurate rates.

Each year, Montana State Fund (MSF) conducts premium audits on approximately 25 percent of all policyholders. Policies of more than a specified premium amount may be audited every year. Certain industries experience more frequent audits due to specific job hazards or large fluctuations in payroll.



## HOW IS MY PREMIUM CALCULATED?

The premium you are billed at the beginning of the policy year is actually an estimate. This estimate is calculated using two things: your organization's job classifications and payroll. Classifications are determined by your type of business and by the kinds of jobs your employees perform within the business. The classifications reflect the different levels of risk exposure. Your business' payroll can change throughout the year if your workforce grows or shrinks, employees work overtime or your organization expands or diversifies. At the end of the policy year, an audit of the previous 12 months' payroll and job classifications is conducted and the billed premium is adjusted up or down to reflect any changes.

## TYPES OF AUDITS:

**On-site Audit:** An auditor will visit you to review your records and operations. MSF will notify you in advance of an audit and arrange a time to meet.

**Phone Audit:** An auditor will review your records and operations over the phone. As with the on-site audit, you will be notified in advance.





## PREPARING FOR AN AUDIT:

To make your audit experience as simple as possible, please have the following records available when the auditor arrives at your business. These records should reflect the appropriate policy year period that will be audited.

1. Original payroll source.
  - > Payroll Register
  - > Payroll Journal
  - > Individual Earnings Records
2. Workers' compensation payroll recap and/or Montana State Fund Payroll Reports with supporting documentation.
3. Federal and State quarterly wage and tax withholdings reports.
  - > Federal Form 941
  - > State Unemployment
4. Any documentation that represents the allocation of your expenses by account name.
  - > Cash Disbursement Journal
  - > General Ledger
  - > General Journal



**MONTANA**  
**STATEFUND**

[www.montanastatefund.com](http://www.montanastatefund.com)

P.O. Box 4759 • Helena, MT 59604-4759  
800-332-6102