



PAYROLL REPORTING FOR ACCURATE WORK COMP PREMIUM CALCULATIONS

Recently, the AMRRP Board of Trustees authorized an independent premium audit of all workers' compensation members in order to review the accuracy of payroll reporting for purposes of premium calculation. In reviewing individual audit reports, three common areas resulted in a majority of the discrepancies in the reporting of employee wages and classifications:

Police and Fire Department Volunteers

At the discretion of each municipality, AMRRP Members can pass a resolution or ordinance to provide workers' compensation coverage to volunteers. Since volunteers are not paid any actual wages, the question then becomes what salary information should be reported to the Pool for purposes of calculating workers' compensation premiums for volunteer workers. ARS §23-901.06 states that premium payments for volunteer workers should be calculated at \$400 per month. However, ARS §23-901 also specifies exceptions for volunteer policemen and firemen, stating that salary for those individuals should be calculated based on "...salary equal to the beginning salary of the same rank or grade" of full-time, paid police officers or firefighters within the city or town. In municipalities that have no full-time equivalent police officers or firefighters, the statute states that the salary equivalency for volunteer police officers or firefighters shall be determined by a municipal or departmental resolution.

Confusion has arisen, however, in reporting the salaries of police or fire volunteers who are not actually performing the law enforcement or firefighting duties of policemen or firemen. An example would be a police or fire department volunteer who was only providing administrative services (filing, answering phones, handing out safety brochures, etc.). In that case, the salaries of those volunteers should be reported based on earnings of \$400 per month while the salaries of volunteers who are actually providing law enforcement or firefighting services should be reported at the higher pay rate, using the equivalency criteria outlined above.

Holiday and Overtime Pay

Holiday pay, vacation pay and sick pay should always be reported as wages.

When reporting overtime pay, the portion of wages that comprise any *increased overtime pay rate* should be excluded from reporting. This includes overtime paid at time-and-a-half or double time.

For example, consider an employee who normally earns \$400/week based on wages of \$10/hour x 40 hours. If that employee works an additional five hours at time-and-a-half, they will earn an additional \$75 (five hours @ \$15/hour). The amount of that \$75 that reflects the *increased pay rate* is \$25, based on five hours of work at an *additional* \$5/hour. So, the \$25 increase over the employee's regular hourly pay should be excluded from reporting.

An easy "rule of thumb" is to always report wages based on the total number of hours worked (including regular hours and overtime hours) but, to report all hourly wages at the regular pay rate. Applying that rule to the example above would mean \$450 of wages would be reportable, based on the employee working 45 hours at \$10/hour. The \$5/hour increase in the employee's hourly rate for five hours of overtime would not be reported.

The chart below provides an easy-to-follow reporting example:

Overtime at Time and One-Half - Employee Regular Rate of Pay = \$10/hour		
Regular (Straight) Pay:	\$10.00	Report as wages
Overtime (Premium) Pay:	\$5.00	Do not report as wages
Total Overtime (Premium) Pay:	\$15.00	(of which \$10 is reportable)

Overtime at Double Time - Employee Regular Rate of Pay = \$10/hour		
Regular (Straight) Pay:	\$10.00	Report as wages
Overtime (Premium) Pay:	\$5.00	Do not report as wages
Overtime (Double) Pay:	\$5.00	Do not report as wages
Total Overtime (Premium) Pay:	\$20.00	(of which \$10 is reportable)

Employees Performing Duties in More Than One Job Classification

Employees often perform a variety of duties that can fall under multiple class codes. Wage reporting can be allocated accordingly, with the employer reporting on wages paid within each individual class code. However, the employer must maintain records to clearly document the actual amount of time employees are performing duties within each class code under which wages are reported. An estimated allocation or general percentage allocation is not permitted.

If the original payroll records do not document the actual payroll amounts that are applicable to each class code, the entire payroll must be allocated to the class code representing the highest authorized rate among those class codes that apply to the employee.

If questions arise regarding these or other payroll reporting issues, please contact AMRRP Program Administrator Ed Bantel at (602) 368-6618.