

## **PREPARING FOR YOUR UNEMPLOYMENT INSURANCE (UI) AUDIT**

### **INTRODUCTION**

This page is intended to provide employers with answers to questions that they might have about their upcoming audit with the Indiana Department of Workforce Development (DWD). The purpose of an audit is to assist employers in complying with Indiana Code, Title 22, Article 4, requirements for Unemployment Insurance (UI). The information in this document is meant to help employers understand what to expect during and after an audit. If an employer still has questions about this process, the assigned auditor will be able to help.

### **WHY WAS MY BUSINESS SELECTED FOR AN AUDIT?**

Each year, thousands of Indiana employers are selected for a UI Audit. Employers are chosen from a computerized list that provides both a random and a targeted sample of employers who are registered with the IDWD. A business may also be audited if they are not registered for UI coverage and the Agency believes the business has employment for UI purposes.

### **WHAT IS THE PURPOSE OF THE UI AUDIT?**

The primary purpose of the UI audit is to verify that employers are reporting employment and wages correctly. The auditor will be looking for worker misclassification, reporting total gross wages instead of covered wages, under or over-reporting taxable wage base, and other issues that affect the employer's liability for UI contributions or the worker's basis for an unemployment claim.

### **HOW LONG WILL THE AUDIT TAKE?**

The amount of time it takes to conduct an audit can vary significantly from employer to employer. The size of the employer, the condition of the employer's records, and the number of issues encountered during the audit can increase or decrease the amount of time it takes to complete the UI audit. To help ensure that an audit runs smoothly, the IDWD recommends that employers keep all required records organized, and that they provide any requested documents or information as quickly as possible.

### **DO I HAVE TO BE AVAILABLE AT THE TIME OF AUDIT?**

The responsible party does not have to be available at the time of the audit. Employers are allowed to have office managers, accountants, bookkeepers, or other representatives work directly with the auditor. If an employer chooses to have a representative attend, the IDWD asks that the representative's name, phone number, email address, and physical address be provided prior to beginning the audit. In some cases, the IDWD may need to speak directly to the responsible party even if the employer has designated a representative.

### **WHAT RECORDS WILL THE AUDITOR EXAMINE?**

The employer should have the following records available for inspection (this list will also be included in an appointment letter):

- All payment for service records including:
  - Separate records for each worker showing dates of service, work location, payment dates and amounts paid;
  - Copies of W-2 forms and W-3 transmittal forms for each employee;
  - Copies of 1099 forms and 1096 transmittal form;
- All cash disbursement records, including check registers, check stubs, disbursement journals, and bank statements;
- General ledger, chart of accounts, financial statements, and master vendor lists;
- Canceled checks, petty cash receipts, daily cash reports, etc.;
- Quarterly SUTA reports;
- FUTA 940 forms;
- FICA 941 forms;
- Business Federal Income Tax Returns – 1040 Form Schedule C, 1120, 1120S, or 1065;
- UI Audit questionnaire;
- Any other records indicating payments for services performed;
- Source documents showing the reason for any payments to individuals other than payroll. Valid documents include things like certificates of insurance, business websites, invoices, business cards, contracts, and receipts.

Most records can be sent electronically prior to the audit (Microsoft Excel is preferred where applicable).

#### **WHY IS THE AUDITOR EXAMINING INFORMATION OUTSIDE OF PAYROLL RECORDS?**

In order to verify that wages were correctly reported for UI purposes, the auditor must look at a wide variety of records including those that contain payroll information and those that contain information on payments for services. This information is gathered to assure that all workers are classified correctly and that the business is reporting correctly for UI purposes.

#### **WHAT PERIOD OF TIME WILL THE AUDIT COVER?**

An appointment confirmation letter will be sent to the employer prior to the audit taking place. This letter will list the year(s) that the IDWD is auditing. The employer will need to provide records for the year(s) listed.

### **CAN I REFUSE TO PROVIDE RECORDS TO THE AUDITOR?**

Per statute, business records are subject to inspection by the IDWD. If the employer refuses to provide the records this may result in a subpoena being issued to force the business to produce the documents. Please see Indiana Code 22-4-19 for your rights and duties as a business in Indiana. Please be aware that failure to comply with a subpoena can result in enforcement action through the Attorney General's office.

### **WHEN WILL I KNOW THE AUDIT RESULTS?**

Normally your auditor will schedule an exit interview to discuss the results of an audit before issuing the Notice of Audit Findings. The Notice of Audit Findings can have three results:

1. That the auditor found no changes.
2. That the auditor found unreported or under-reported wages. This finding will result in an amended notice of assessment, and, if unpaid, a notice and demand will be issued.
3. That the auditor found over-reported wages. This finding will result in an amended notice of assessment, and, if overpaid, a refundable account credit will be issued.

### **WHAT IF I HAVE OTHER QUESTIONS REGARDING THE AUDIT?**

Any questions an employer has about the audit and/or audit results should be made to the assigned auditor.

### **WHAT IF I DON'T AGREE WITH THE AUDIT RESULTS?**

After an audit is completed, the IDWD will send a Notice of Audit Findings. The Notice will detail the auditor's findings and provide instructions on how to protest the results. The employer has fifteen (15) days to file a written protest of the Notice of Audit Findings. The Tax Liability protest form ([SF55109](#)) should be completed and submitted with a copy of the Notice and any supporting documents regarding the issue by fax to (317) 233-9226.

### **WHAT IF I CONSIDER SOME OR ALL MY WORKERS INDEPENDENT CONTRACTORS OR SUBCONTRACTORS?**

Under Indiana UI law, an individual who performs services for remuneration is presumed to be an employee unless specifically excluded under the Act. Exclusions are found in Indiana Code 22-4-8. This chapter of the statute explains the three part test for determining if an individual is an employee or an independent contractor. If a business has classified a worker as an independent contractor, they must prove to the auditor that all three parts of the test are met. If the business is unable to prove that all three parts of the test are met, the auditor will reclassify the worker as an employee. The three parts of the test are:

1. The individual must be free from direction and control; AND
2. The work performed must be outside the usual course of the employer's business; AND
3. The individual must be engaged in their own independently established trade, occupation, profession, or verifiable business of the same nature as that involved in the service performed.

For more information, review [these FAQs](#) on worker misclassification.