

Managing the Premium Audit Process

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Premium audits are a source of misunderstanding and confusion for many businesses. Premium audits are a means of obtaining information to determine the actual payrolls, sales, or other variable information that is used to calculate insurance premiums.

Premium audits are a standard industry practice and insurance companies have the contractual right to audit policies they write. Insurance policies subject to premium audits often include composite rated automobile, stock floaters, equipment floaters, cargo, general liability and workers compensation.

To help avoid audit mistakes that can lead to higher insurance premiums, here are some suggestions:

Before the Audit:

1. Make a thoughtful decision about who from your company will be best able to work with the auditor.
2. Review prior years' audit billing statements and auditor's work sheets.
3. Gather pertinent accounting records, such as payroll journals, sales journals, cash disbursement journals, general ledgers, social security reports, and state unemployment tax returns.
4. Review payroll documents to make sure that the records include breakdowns of wage types by employee, department and class code.
5. If subcontractors or independent contractors are used, make sure to have on file certificates of insurance documenting that they have their own workers compensation and general liability insurance.
6. Review classification guidelines such as SCOPES, for WC and PAAS for GL so that you know how the auditor is supposed to separate your payroll and sales.
7. Be on time and prepared when the auditor arrives.

When the Auditor Arrives:

1. Befriend the auditor; they are a working stiff also. Buy them a cup of coffee.
2. Request that the audit take place on-premises so that all pertinent records are readily available.
3. Ask questions during the audit to clarify areas you do not understand.
4. Before the auditor leaves, ask for a hard copy of their specific findings.

After the Audit:

1. When the audit billing statement is received, review it carefully and compare it to the original policy. Note all changes and discuss any questionable areas with the auditor before agreeing to pay additional amounts due.
2. Ask the agent that placed the policy to review the audit for the same reasons you are.

If you have questions about the process or a specific classification issue, I can be reached at jdcook@manry-rawls.com.

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