

What is an Insurance Audit?

Insurance audits are typically performed on commercial insurance policies providing auto, general liability, garage liability, umbrella and workers compensation coverages. When these policies are issued, you are asked to pay an estimated premium. Estimated premiums are based on the nature of your business and your estimate of exposures (i.e. payroll, sales, etc.) for the policy period.

Once your policy expires, we conduct an audit to collect information on actual exposures and operations and then determine the final premium.

When and how will the audit be done?

We will collect audit information from you shortly after your policy expires.

Smaller, less complex policies may only require that you assemble and send the necessary information to us or have the information available when a telephone auditor calls.

Larger and more complicated policies are handled by a field auditor, who will schedule an appointment and visit your business.

If you must change or cancel a scheduled appointment, please advise the auditor as far in advance as you can. It is best to schedule and complete this audit within 30 days from your policy expiration date.

It is important for the auditor to ask questions about your operations. If you cannot be present to answer questions, someone familiar with the specifics of your entire business operations should be available.

If you direct us to your accountant, we will obtain as much information as possible from your accountant and contact you if we have additional questions.

Most of our audits only take a half hour or less, but audits of larger policies may take longer. Though the auditor will have a number of questions, you will not have to be directly involved during the entire audit if adequate records are available.

Commonly Asked Questions

- Q: Why is an audit necessary?
- A: To calculate the exact amount of premium you will be charged. Actual exposures and operations are determined by an audit.
- Q: If overtime is not summarized, will I still get credit?
- A: Overtime records must show overtime pay separately by employee or by classification or it will not be deducted.
- Q: If I don't have certificates of insurance from subcontractors for the audit, will I be able to get them?
- A: It is in your best interest to request a certificate from a subcontractor prior to performing work rather than at the time of the audit. You will be charged for employees of those subcontractors not providing certificates as though they were your employees.
- Q: Several of my employees do more than one type of work. How should I assign their payrolls?
- A: Payrolls may be divided into appropriate classifications, provided the division is reflected on the original records in dollar amounts.
- Q: Some of my work could be considered clerical and sales. Should I separate it?
- A: The clerical and sales classifications cannot be used with any other class for division of a single employee's payroll.
- Q: Is it necessary to provide audit information if my renewal policy has been canceled?
- A: Yes, policies are issued using estimated payrolls so the actual payroll needs to be known to determine if additional premium is due the company or a return premium is due the policyholder.

Your Insurance Audit



What records are needed?

Good record keeping is important to the audit process. Accurate records provide and confirm information, save time and minimize your insurance costs. The premium auditor will let you know which of the following records will be needed for your audit when the audit appointment is made.

- PAYROLL RECORDS include payroll journal and summary, federal tax reports (941's), state unemployment reports and individual earnings records. Totals should be kept for overtime when applicable.
- EMPLOYEE RECORDS include the number of employees and hours, days or weeks worked annually.
- SALES JOURNAL includes all goods or products sold, rented and/or distributed as well as service, repair and installation. Sales or excise taxes collected separately and submitted to the government need to be identified in order to be excluded.
- CHECK REGISTER/CASH DISBURSEMENTS show subcontractors, material costs and payments for casual labor.
- CERTIFICATES OF INSURANCE show the subcontractors used during the policy period for construction, erection, repair for general liability and workers compensation insurance coverages.
- INCOME STATEMENTS include subcontracted costs used to determine the cost of hired autos for commercial automobile audits.



How can you save money?

There are several ways you can save on premium dollars depending on the type of business and coverages you have. Not all of the following may apply to your particular business.

- PAYROLL DIVISION - A single employee's payroll can be divided except when the employee works in a clerical, sales, drafting or driving position. Proper records must be kept in dollar amounts that reflect work actually performed before a breakdown can be applied. Without adequate records, the entire payroll for the employee must be placed in the highest rated classification.
- EMPLOYEE TIPS - Tips declared by employees may be excluded from their gross payroll only if separately identified.
- CERTIFICATES OF INSURANCE - Have certificates available for the audit at your premises (or your accountant's) to ensure that charges are not made unnecessarily. Certificates must cover the period when the subcontractor worked for you. This may require certificates covering two different policy terms for the subcontractor in some cases.
- DRIVERS - (For general liability coverage), employees with the sole responsibility of driving may often be excluded from chargeable payroll if their wages are shown separately. However, employees who perform other duties besides driving must be placed in the highest rated class describing their duties.
- COST OF HIRE - is commonly used on commercial automobile policies as a premium basis for hired auto coverage. This includes automobiles and trailers used under contract on behalf of or loaned to the named insured, which may include rental units as well as subcontracted hauling for the insured.

Your business is unique. If you have questions about how your specific circumstances will affect savings, please contact your independent agent representing Auto-Owners Insurance.

Definitions

REMUNERATION is commonly called payroll. It includes wages, commissions, bonuses, overtime pay, pay for holidays, vacations and sickness, payment for piece work, value of meals and lodging and other substitutes for money. (Substitutes for money include draws, dividends, traveling expenses and travel time payments, gift certificates or merchandise credits, annuities and contributions to individual retirement accounts. This list is not all inclusive but represents common substitutes for money. Your premium auditor will discuss this with you at the time of your audit.)

OVERTIME is the hours worked for which there is an increase in the rate of pay. It includes:

- Work in excess of 8 hours per day or 40 hours per week.
- Work on Saturdays, Sundays or holidays.
- Work in any day or week in excess of a guaranteed wage agreement.

Extra pay for shift differential is not considered overtime.

Ordinarily, overtime pay is equal to 1^{1/2} times the regular hourly rate. For example, a regular pay rate of \$10 per hour at time and a half generates a \$15 per hour overtime rate.

If the extra \$5 of pay is shown separately, it is excluded in total. If total overtime wage is shown in a combined amount of \$15 (regular pay plus increase) and included in gross payroll, one third (\$5) will be deducted from gross pay.

If the overtime wage is calculated at double time, one half will be deducted from gross pay.