

Premium Audit

Commercial Lines Service Overview

The primary purpose of a premium audit is to calculate the policyholder's final premium. When the policy was issued, a premium was generated by estimating an exposure basis (typically payroll or sales) and multiplying it by a rate. A commercial premium audit is a review of a policyholder's operation and payroll records to determine the actual insurance exposure for the coverage provided and ensure that the correct classification(s) are being applied for the business.

The premium audit process is designed to guarantee that the policyholder only pays the premium owed, based on their specific exposure(s). Because the original premium was only an estimate, it's likely that the premium audit may result in a change of premium and/or classifications for their business. This change may generate either a bill or a refund.



Types of Audits

Premium Audits are commonly performed on policies with auditable exposures, including General Liability, Liquor Liability, Workers' Compensation and Garage policies. Donegal conducts a premium audit on all commercial new and renewal business (with auditable exposures) within 90 days of the expiration date of the policy. Please be aware that, in accordance with the policy terms, the insurance carrier has up to three years after policy expiration to conduct a premium audit.

Premium audits are conducted either through a physical audit—where an auditor meets with the policyholder at their business to review records—or via a self-audit, completed and returned by the policyholder. Donegal always conducts a physical audit for new business, and both audit types can be done virtually. In later years, the audit type may vary based on premium size, including physical audits or a mix of both methods.

Preparing for An Audit

By preparing in advance, the policyholder will ensure that they receive an accurate premium audit, ultimately saving themselves time and money. It is important that a principal of the business be available and accessible at the time of the audit to provide the details of the business operation and employees' duties. Among the key pieces of information, the policyholder will be asked to provide:

- A Description of Company Operations
- Employee Names and Job Responsibilities
- Gross Payroll – *Including, but not limited to: bonuses, commissions, holiday pay, sick pay, overtime pay, vacation pay and all pretax amounts*
- Overtime Pay (*Shown Separately*)
- Tax documents/Sales records:
 - *Federal 941s, state quarterly reports, income tax return, 1099, etc.*
 - *Gross sales for each type of service provided/work performed by location*
 - *Profit and loss statement*
 - *General ledger / time cards*
- Subcontractor – *Name of subcontractor, amount paid to each subcontractor, type of work performed by each subcontractor, certificates of insurance or appropriate state exemption forms (state specific) for each subcontractor*

The policyholder may be asked to provide additional information such as tips, number of free meals, live entertainment and liquor sales, etc.



Audit Documents

Policyholders often wonder why certain documents are requested during an audit. Below are examples of key audit documents and their importance to the process:

State UC2s (*State Unemployment Compensation Reports*)

This is the main tool for the auditor that will list all of the employee's by name and their compensation for each quarter.

Federal 941s

These documents are used to compare and confirm what is shown on the State UC2s (quarterly reports). If the two reports have significant differences, then the auditor understands the employer may conduct business in other states and will lead to additional records.

Payroll Reports

These documents are the employer's computerized payroll reports showing each employee and their payroll. This allows the auditor to obtain job duties by employee.

Check Register, Profit & Loss Statement, General

Ledger, Business Tax Return

The auditor may request one or all of these documents to verify and confirm subcontractor use.

Certificates of Insurance for Subcontractors

Certificates are needed for the auditor to appropriately classify subcontractors as insured or uninsured.

State Sales Tax Reports (*Monthly, Quarterly, Semi-Annual*)

These documents are used by the auditor to determine the exposure basis for liability policies rated on sales.

Records should be available for view by the auditor, but copies are not required to be given to the auditor. If copies are provided for the auditor to keep, personal and confidential information should be blacked out.



Confidentiality

Throughout the appointment process, the premium auditor will keep the policyholder apprised of the records needed to perform the audit. They can rest assured that the confidentiality of their information is of the utmost importance to us. We ask that any information they prepare does not include social security numbers or other personal information not relevant to the premium audit process. We encourage them to black out this information on the records they give the auditor.

Disputing an Audit

Those with questions regarding their completed premium audit can request to review the audit worksheets by emailing CommercialAuditTeam@donegalgroup.com, or calling (800) 877 - 0600 x7236. When requesting, we'd ask that they have their policy number(s) ready and to be specific on which audit term they are questioning. Audit worksheets will be sent to you for review.

If the policyholder disagrees with the audit findings, they will need to utilize Donegal's formal audit dispute process in order to expedite the review. A dispute can only occur after they have obtained and reviewed the audit worksheets. With the worksheets, the policyholder will receive a "Dispute Resolution Letter" that will outline what is required to formally dispute the audit. They should follow the instructions and document in writing their dispute, along with any additional information they may have to support their dispute (i.e. records, certificates of insurance, etc.). We will review their dispute and provide them with a response. If warranted, their audit will be revised based on this new information provided. It should be noted, Donegal does not suspend billing of audits while an audit is in dispute.

It is incumbent upon the policyholder to begin this process promptly if they feel a mistake has been made with their premium audit.

Audit Tips

1. Have the proper person available during a physical audit to provide the records and answer the auditor's questions
2. Properly summarize gross payroll and overtime paid to individual employees and organize it by type of job. Construction companies should keep track of payroll by employee, hours worked and gross pay.
3. Use subcontractors or independent contractors that can provide Workers' Compensation and General Liability Certificates of Insurance. Uninsured subcontractors may be charged as employees.
4. Identify individuals who perform strictly clerical office duties, outside sales or drivers
5. Payroll can be adjusted on a policy throughout the policy period, and any additional premium may be spread over remaining installments. Reporting changes will keep the policy more in line with the actual payroll figures, which will avoid large differences at the time of the audit

Frequently Asked Questions

The policyholder works alone. The auditor has requested payroll records and because they have no employees, they have no payroll records. Is the audit still necessary?

Yes. The auditor will need to verify that the policyholder works alone by looking at records. The auditor will also look and review their relationship with any independent contractors during the policy period.

The policyholder canceled their policy and no longer has insurance with your company. Do they need to be audited?

Yes. The purpose of the audit is to review the actual business activity for the time period that the policy was still in force.

How are owners classified in the audit?

Owners, officers, partners and members can elect or decline coverage their Workers' Compensation policy depending on the type of entity insured and state they are in. If owners, officers, partners and members are covered under the policy, their wages will be included at either a fixed amount or an actual amount (subject to state minimum and maximum amounts). Owners are classified according to their actual duties.

What gives you the right to look at the policyholder's books and records?

An insurance policy is a legally binding contract between a policyholder and their insurance carrier. One of the conditions in the contract states, "You will let us examine and audit all your records that relate to this policy."