

# Risk Tips: Before, During, and After the Premium Audit

*Courtesy of The CIMA Companies, Inc. of Alexandria, VA*

## **Before your premium audit, be sure your exposures are accurate:**

- Notify your broker when changes occur that affect your workers' compensation (number of employees, job classifications, payroll, states of operation) or commercial general liability (payroll, sales, area or other basis for premiums) policies. These changes could affect not only the cost of your insurance, but also the insurer's obligation to cover a claim.
- Understand what "remuneration" does not include, such as: expense reimbursement to employees, contributions to benefit plans, work uniform allowances, and perks such as company-provided vehicles. Make sure your payroll records identify the officers, so the auditor can cap their compensation.
- Track overtime pay separately – both by individual employee and for all employees in a classification, so overtime is counted as straight time for workers' compensation.
- Verify that your contractors have their own insurance in force. If you don't, their payroll becomes your payroll. If your contractors can't provide certificates of insurance, charge back to them the portion of your insurance cost that is based on their payroll. Follow the IRS criteria to make sure your contractors are "independent."
- Monitor your claim reserves so your debit or credit modification reflects current reserves.
- Once notified of an audit, conduct a "dry run" to compare your projected results with the actual audit.

## **During the premium audit:**

- Have available your federal and state tax reports, ledgers, checkbooks, contracts, 1099s or other documents the auditor specifies.
- If conducted at your site, stay in the room during the audit to answer questions.
- Make sure rates and classifications on the audit match the current policies.
- Make sure officers are identified.
- Ensure the "experience modification factor" used on the workers compensation audit, and any experience calculations used for the commercial general liability policy, are current. If you are not sure the auditor's worksheets reflect your actual claims experience, have the auditor check the claim files.
- If there's an error on the experience modification factor, make sure the insurer notifies the National Council on Compensation Insurance to make the correction.
- Get copies of the draft worksheets from the auditor.

## **After the premium audit:**

- Compare draft worksheets with the final audit. Check for simple mistakes like transposition errors.
- Make sure overtime was not charged inappropriately.
- Ensure no contractors were classified as employees if you had certificates for them and they satisfied the IRS "independent contractor" criteria.
- Make certain former employees are not shown on the payroll unless they actually worked during those policy periods.
- If an error in the experience modification factor was discovered, make sure the insurer corrects it.
- Keep in place all the controls described in the first part of this article.

**For more information, please call Dyste Williams at 952-593-5025.**

The above information is advisory in nature. No liability is assumed by reason of the information in this document.