Preparing for your premium audit

What is a premium audit?
An accurate premium audit is a benefit to you and your business. An initial premium for some policy types is estimated based on past records of your operations. After the policy period ends, a premium auditor conducts a premium audit to determine what your exact insurance exposures were during the policy period. If necessary, your insurance premium is then adjusted to reflect your actual exposures.

What types of business policies are audited?
Policies with variable or fluctuating exposures, such as payroll, total cost, sales/receipts, and admissions have estimated exposures when written. Typically, policies such as Workers' Compensation, General Liability, Garage Liability, and Inland Marine Installation Floater polices are audited.

Who performs the audit?
Our own staff of premium auditors performs our audits whenever possible. Due to geographical constraints, capacity and size of account, we may also contract with outside premium audit service providers.

What information/records are needed?
Having the proper records saves you time, and can save you money by ensuring that you receive an accurate audit. Depending on the type of policy, your auditor will let you know the records that will be needed in advance. Typically, the audit will include a review your business operations, as well as financial and business records. Please be assured that we consider confidentiality of the utmost importance, and we keep all information in the strictest of confidence.

Examples of operational review activities:

- Tools, materials & processes
- Employee job duties
- How & where product/services are delivered
- Tour of facility
- Type of business entity

Examples of financial and business records requested:

- Payroll records of original entry
- General ledger
- Job cost records
- Sales and receipts journals
- Subcontractors cost
- Hire/termination dates for employees
- Quarterly tax returns (Federal 941 & state unemployment returns)
- Cash disbursements
- Financial statements
- State sales tax returns
- Certificates of insurance for subcontractors used
- Cost of hired equipment/vehicles

Q&A Preparing for your premium audit

PENN NATIONAL INSURANCE

What is considered payroll?
Many insurance policies, such as Workers' Compensation, are based on payroll. Payroll includes:

- Gross wages or salaries
- Bonuses
- Holiday pay
- Sick pay,
- Other money substitutes received by employees as part of their pay
- Commissions
- Overtime pay
- Vacation pay
- Piecework

In addition, some states have specific rules concerning what should be included in determining your Workers' Compensation coverage premium. For example, although overtime pay is included, the amount paid in excess of straight time can be deducted; if your records can verify this excess. This is not applicable in Pennsylvania and Delaware for workers compensation coverage.

What is considered gross sales?
Gross sales is the gross amount charged by the named insured for all goods/products sold or distributed; operations performed during the policy period; rentals; and dues or fees. This would include discounts or allowances. If your policy premium is based on gross sales, certain items can be deducted from gross sales such as sales or excise taxes submitted to a government division; credits for repossessed, damaged or returned merchandise; finance charges; freight charges; and royalty income from patents or copyrights, which are not product sales.

What is the definition of total cost?
Polices based on total cost are primarily for general liability when subcontractors are used. This includes the cost of all labor, materials, and equipment furnished, used or delivered for use in the execution of the work. This would also include all fees, bonuses or commissions made, paid, or due.

What does interchange of labor mean in respect to workers compensation policies?
Interchange of labor means some employees may perform duties related to more than one basic assigned classification. For workers' compensation policies, some states allow the split between two or more basic classifications as long as the employer maintains proper payroll records which reflect the actual time spent performing work in each classification (percentages are not accepted). Several states do not allow a split unless the insured is involved in construction or erection work. Otherwise, the entire payroll is assigned to the highest rated classification.

Why is it important to have certificates of insurance for subcontractors available during the audit process?
In order to protect your business, you should always secure a certificate of insurance for both workers compensation and general liability coverage at the time you hire each subcontractor or independent contractor, to work on your behalf. Having proof of proper and adequate insurance and coverages/limits for your subcontractors (by securing certificates of insurance) will lessen the chargeable premium at time of audit.

For more information, visit our wwww.PennNationalInsurance.com, and go to our Adequately insured independent contractors and Independent contractor or employee? page under Business Insurance.

Why is it important to notify you agent about wrap-up projects in which you are involved? An owner controlled insurance program (OCIP), or a wrap-up project, should be specifically endorsed on your policy with Penn National Insurance prior to the start of the job. This way, the owner of the project's insurance will cover those exposures directly (and your policy with us will exclude those exposures and charges). Without such an endorsement, it is unclear who is responsible for those exposures, and may result in audit charges on both policies. It is certainly to your advantage to make sure your agent is aware of any wrap-up projects and that your policies are endorsed appropriately.