



Preparing for an Insurance Audit

Most general liability and workers' compensation insurance policies are issued on an auditable basis. At expiration, insurers will use in-house or independent auditors to review your records, adjusting your premiums to your actual exposures.

Audits are typically conducted 30-90 days following your insurance policy expiration. The auditor will make an appointment to visit your office and will provide a list of documents that they will want to review including:

Workers' Compensation

- Copy of DE9, DE9C, 941, W2s, and 1099 forms
- Payroll summary and hours worked by employee
- Time cards showing daily start/stop times to validate dual wage classifications
- Job duties/descriptions
- List of owners/officers of the company, and percent ownership
- List of subcontractors with evidence of workers' compensation and current license from California State Licensing Board
- Breakdown of overtime payroll for each employee
- If engaged in prevailing wage jobs, detailed breakdown of basic rate, fringe benefits and overtime costs
- Listing of individuals employed in clerical and sales functions
- List of OCIPs you were part of during the policy year, and certificate of insurance for each OCIP job

General Liability

- Same payroll information as obtained for workers' compensation
- Total sales as shown on your financial statements
- Subcontractor/1099 expense for the policy year, including certificates of insurance for each subcontractor
- Description of operations of each named insured

Auto Liability

- If auto is on a composite rate basis, just the ending number of vehicles at policy expiration
- If not composite rated, a spreadsheet showing purchase and sales dates for all vehicle changes during the policy year

Construction Equipment and Rented Equipment

- Spreadsheet showing equipment values at end of policy period for all scheduled construction equipment
- Cost of rented equipment (not rented vehicles)

Tips/Rules to Reduce Audited Premiums:

Applies to:		
Workers' Comp	General Liability	
Yes	Yes	1. Make sure employees are classified appropriately. There are more than 60 classifications that can apply to contractors. We suggest a meeting with clients to review job duties, licenses held, and hourly wages.
Yes	Yes	2. Understand that the definition of remuneration (payroll) for workers compensation includes: <ul style="list-style-type: none"> • Straight time payroll (delete overtime surcharge) • Vacation, holiday and sick pay • Bonuses/profit sharing • Automobile allowances Subject to owner/officer minimum and maximum payroll limitations
Yes	Yes	3. Employees involved in the construction trades are eligible to use more than one construction classification if they perform more than one job description; <u>and</u> the wages must be reflected appropriately on time cards.
Yes	Yes	4. You should request copies of the auditors' worksheets to verify the payrolls, classifications, OCIP adjustments, waiver of subrogation adjustments were done properly.
Yes	Yes	5. Audit disputes can happen. When you need to dispute an audit, prepare a letter outlining the dispute, and include a check for the undisputed portion of the audit. Send the information to us, and we will work with you, the auditor and underwriter to resolve the dispute.
Yes	Yes	6. Keep track of all OCIP jobs and your corresponding payroll and sales for these projects. We have developed an Excel spreadsheet to help you track these projects and exposures. The auditor will want to see this spreadsheet and certificates of insurance for each OCIP project.
Yes	No	7. Waiver of subrogation charges may apply at audit. Keep track of all jobs that required a waiver of subrogation <u>and</u> total field payroll for each project. Typically, a waiver of subrogation premium is between 2% and 5% of the premium earned for all jobs requiring the waiver.
No	Yes	8. General liability policies are typically based on payrolls. Keep in mind the following payroll limitations: <ul style="list-style-type: none"> A. Payrolls for owners that work in the field are limited to \$33,600 B. Full time truck drivers' payrolls are to be excluded as the exposure is contemplated in the automobile premium.

Please contact your PentaRisk broker or account executive for a meeting to review your classifications and operations, or to discuss other options that can simplify audits, including composite rates and monthly payroll reporting.

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