

There When It Matters Most!



What is a Commercial Premium Audit?

The primary purpose of a premium audit is to calculate your final premium. When your policy was issued, the premium was an estimate of an exposure basis (usually payroll or sales) multiplied 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 the correct classification(s) are being applied for your business. The premium audit process is designed to guarantee you only pay the premium that you owe, based on your specific exposure(s). Since the original premium was an estimate, the premium audit may likely result in a change of premium and/or classifications for your 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 60 days of the expiration date of the policy. Please be aware, according to your policy terms, your insurance carrier has up to three years after policy expiration to conduct a premium audit. Premium audits are conducted as either physical audits, with an auditor (classification specialist) meeting you at your place of business and reviewing your records or self-audits, where we send you a form to be completed and returned. Depending on overall premium size, a physical audit may be performed every year or a combination of physical and self-audits may be performed in subsequent years.

Preparing for Your Audit

Preparing for the premium audit can save time and money by ensuring you receive an accurate audit. It is important that a principal of the business be available at the time of the audit to provide the details of the business operation and the employees' duties. General information needed includes:

- Description of company operations
- Employee names and job duties
- 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

Additional information may include tips, number of free meals, live entertainment and liquor sales.

Confidentiality

During the appointment process, the premium auditor will make you aware of the records needed to perform the audit. Please be assured that confidentiality of your information is very important to us. We ask that any information you prepare does not include social security numbers or other personal information not relevant to the premium audit process. We encourage you to black out this information in the records you give the auditor. The details contained on the audit worksheets are released only to the policyholder. You, as the policyholder, have the right to share those worksheets with your agent if you would like to have them review your information.

Disputing an Audit

If you have questions regarding your completed premium audit, please call Donegal's Premium Audit Department at 800-877-0600 x7236 to request the audit worksheets for review. Be specific on which audit term you are questioning. Have your policy number(s) ready. The audit worksheets will be sent to you for review. If you would like to dispute the audit, Donegal has a formal audit dispute process. A dispute can only occur after you have obtained the audit worksheets to review the specifics of the audit. With the worksheets, you will receive a "Dispute Resolution Letter" that will outline what is required to formally dispute the audit. Follow the instructions and document in writing your dispute, along with any additional information you may have to support your dispute (records, certificates of insurance, etc.). Donegal's Premium Audit Manager will review your dispute and provide you with a response. If warranted, your 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 you as the policyholder to begin this process promptly if you feel a mistake has been made with your premium audit.

Audit Tips

- Have the proper person available during a physical audit to provide the records and answer the auditor's questions
- Properly summarize overtime paid to individual employees and organize it by type of job
- Construction companies should keep track of time and payroll for different types of work
- Use subcontractors or independent contractors that can provide Workers' Compensation and General Liability certificates of insurance
- Identify individuals who perform strictly clerical office duties, strictly outside sales or strictly drivers
- Keep a record of tips for restaurant employees
- Report large payroll changes to your agent. Payroll can be changed on your policy during 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

FAQs

Q: I work alone. The auditor has requested payroll records and because I have no employees, I have no payroll records. Is the audit still necessary?

A: Yes. The auditor will need to verify that you work alone by looking at records. The auditor will also look and review your relationship with any independent contractors during the policy period.

Q: I canceled my policy and no longer have insurance with your company. Do I need to be audited?

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

Q: How are owners classified in the audit?

A: Owners, officers, partners and members can elect or nonelect coverage under your Workers' Compensation policy depending on the type of entity insured and state you are in (consult with your agent). 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.

Q: What gives you the right to look at my books and records?

A: Your insurance policy is a legally binding contract between you and your 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."

Questions?

Contact your agent.

Visit our website. On the "Products" tab, click on "Commercial Insurance" and then "Commercial Premium Audit Services."

Call our Premium Audit Department at 800-877-0600 x7236.