



PREPARING FOR AN INSURANCE AUDIT

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Nobody likes an audit, however it is a necessary evil for some coverages, especially workers' compensation. Being prepared for the audit will make the process faster and reduce errors. There is nothing an insurance company's auditor hates more than showing up at the client's site and the insured has not done anything to prepare for the audit. The following offers key insights to help you prepare appropriately for an audit and experience a positive outcome.

What do I mean by "being prepared"? That depends on the line of coverage being audited and the rating basis for the coverage. For example, workers' compensation insurance is, with rare exception, based on payroll. Auditors need your payroll records including 941's and unemployment tax documents (UC2's in Pennsylvania). Have these documents at your fingertips when the auditor shows up.

Another important preparation step is to have a list of your employees and their job description, workers' compensation classification and payroll in an organized format such as an Excel worksheet. Your insurance agent can help you with this and he/she should be more than willing to meet with you to prepare for the audit.



The following is an example of how you can organize this information. (For this example, we're using a lumber yard.):

Employee Name	Job Description	Workers Comp Classification	Class Code	Total Payroll
Jane Doe	Accounts Payable Clerk	Clerical	953	\$50,000
John Doe	Store Clerk	Lumber Building Material Dealer – Store Employees	935	\$50,000
Jane Smith	Visits Contractors Offices to Secure Business	Salesperson – Outside	951	\$50,000
John Smith	Fills Customers Orders in the yard and loads trucks	Lumber Building Material Dealers	855	\$50,000

If an auditor has questions about the classification of a certain employee, they can bring it up at the time of the audit. This is far better than trying to dispute and correct an audit that may be wrong after the fact. Often times, this grey area can make a significant difference in premium, especially when it's the difference between someone in clerical/sales that is classified in the governing class. Discuss these concerns before the audit with your agent for guidance.

Depending on the type of business, general liability can be based on payroll, sales or some other exposure basis. You should prepare for this audit as outlined above.

An often overlooked item for audits is subcontractors. You should obtain certificates of insurance from all your subs. Failure to do so can result in the subcontracted costs being included in your workers' compensation and general liability rating.

In closing, most insurance company auditors are not out to get you. Their goal is to accurately and fairly report exposures. Being prepared goes a long way toward helping them with this goal. If you would like additional information or would like assistance in preparing for your audit, please contact me at **412-398-8936** or email me at **garywobb@libertyins.com**.

