

1. What is a premium audit and why is this process necessary?

For some insurance policies, the premium charged is based upon a business's annual payroll or sales, which is *estimated* at the beginning of a policy term. A premium audit is a means of verifying that amount by reviewing a business's payroll or sales records and (sometimes, operational information) at the end of the policy term or upon cancellation. The audit determines the *actual* risk exposure, and then, premium adjustments are made as necessary. In some cases, additional money may be owed by the policyholder; in other cases, money may be refunded.

Workers' Compensation policies are required to be audited as well as some Businessowner's Policies (BOP). If the liability component of BOP coverage, for instance, is based on either payroll (typical for contractors) or sales (common for restaurants), an audit may be necessary for that type of policy.

The following questions and answers apply mainly to audits for policy premiums based on payroll. Please contact us for more information about audits for policy premiums based upon sales.

2. What information and records will be needed to complete the audit?

- Payroll records listing individual wages and job duties (payroll journals, check register, general ledger, and other forms of business records)
- Quarterly Federal Tax Returns (IRS Form 941) for the most recently completed four quarters or quarterly State Unemployment Forms*
- Miscellaneous Income Forms (IRS Form 1099)
- Workers' Compensation Certificates of Insurance (ACORD Form 25) for any subcontractors and owner-operators
- Photos and/or videos to support description of operations

* If neither of the above forms are available, policyholders should use Schedule C of the Federal Income Tax Return (sole proprietors), Form 1065 (LLCs/partnerships), or Form 1120 (corporations).

3. How is a premium audit conducted?

Depending upon the premium size and/or nature of the business, one of three methods will be used to obtain audit information. In all cases, audits should be handled by someone familiar with the operation and authorized to release payroll data.

SELF-AUDIT

For a self-audit, the policyholder will receive notification that a premium audit is due prior to policy expiration or upon cancellation. The notice will be accompanied by an audit form that needs to be completed and returned us along with supplementary documentation by email, fax, or traditional mail. See page 4 for contact information.

TELEPHONE AUDIT

For telephone audits, the policyholder will receive a preliminary notification of the information/records to have on hand prior to the scheduled phone audit. In some cases, we may require that this information is submitted in advance. The phone interview will then be conducted at the agreed upon time and date to complete the process. Supplemental documentation can be forwarded to us via email, fax, or traditional mail. See page 4 for contact information.

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| <p>3. How is a premium audit conducted? (continued)</p> | <p>PHYSICAL AUDIT</p> <p>For physical audits, the policyholder will receive a preliminary notification of the information/records to have on hand prior to the scheduled visit. The visit will then be conducted at the agreed upon time and date to complete the process while on premise. To ensure accuracy, the policyholder should plan to have the insurance auditor review records at the primary place of business. If payroll records are located at one or more secondary locations (such as an accountant’s office), those documents should be forwarded to the primary place of business in advance. If the audit MUST be done off-premises due to extenuating circumstances, a designated contact person should either accompany our representative or be available by phone to talk about workplace exposures.</p> |
| <p>4. If a scheduled audit appointment cannot be met, what should be done?</p> | <p>Contact the auditor as soon as possible with: (a) the name and phone number of the policyholder as shown on the policy; (b) the name of the person to contact, his/her phone number and available hours for rescheduling; and (c) the location of the audit if different than the original location specified.</p> |
| <p>5. What if an audit is overdue/more time is needed to complete it?</p> | <p>In either case, please contact Customer Service or our Premium Audit Department. See page 4 for contact information. Each request or situation will be evaluated on a case-by-case basis.</p> |
| <p>6. What is considered payroll/remuneration?</p> | <p>Premium for Workers’ Compensation insurance is based (in part) on payroll, which is defined as total remuneration for services performed by an employee. In most states, remuneration means money or substitutes for money, including:</p> <ul style="list-style-type: none"> • Wages/salaries and overtime • Bonuses and commissions • Vacation, sick, and/or holiday pay • Tax deferred payments (cafeteria or 401K plans) • Rental value of an apartment/house furnished by the employer • Car and/or tool allowances • Any other substitutes for wages (such as store certificates, merchandise, etc.) |
| <p>7. Are tips included in the premium charged for Workers' Comp?</p> | <p>Depending upon state laws, a policyholder may be eligible to exclude all or a portion of tips and other gratuities from total remuneration, but verifiable documentation with payroll records must be provided. (Please contact us for rules governing specific states.)</p> |
| <p>8. How is overtime handled?</p> | <p>In most states, a portion of overtime pay may be deducted, but verifiable documentation by maintaining separate records for regular and overtime income for each employee must be provided.</p> |

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| <p>9. What employee classifications will be used for the audit; how will the payroll be separated?</p> | <p>Upon policy inception, employee class codes are assigned based on the operations described within the application for coverage. Our premium auditor will verify that information and apply any changes that need to be made as a result of your business activities during the past year. Our goal is to ensure that all employee duties are correctly classified and that all payroll is accurately charged according to state regulations.</p> |
| <p>10. Can sole proprietors, officers, or partners elect to be included or excluded from coverage?</p> | <p>The answer to this question varies by state. When sole proprietors, officers, or partners are <i>excluded</i> from Workers' Compensation coverage, proper forms may need to be completed and filed prior to the inception date of the policy.</p> <p>When these individuals are <i>included</i>, a detailed description of each person's responsibilities needs to be included on the application, and the classification that most closely matches actual job duties will be assigned. Payroll is subject to a flat rate amount with minimum and maximum limits determined by entity type and state regulations. If the individual's wages fall with the min/max limits, the actual wage amount will be used. (Please contact us for rules governing specific states.)</p> |
| <p>11. Must officer wages be listed even when they are excluded?</p> | <p>Yes. Since audited amounts are verified against tax returns, we need individual officer wages to confirm the appropriate payroll amount to exclude.</p> |
| <p>12. What is a subcontractor? What is an owner-operator? How is this payroll handled?</p> | <p>A subcontractor is someone other than an employee who is hired to assist the policyholder in providing a product or service to customers. An owner-operator is a person who operates a personally owned vehicle on behalf of the business. In each case, payment is made by some method other than payroll, such as cash or a payable disbursement (i.e., IRS Form 1099).</p> <p>We must receive a Certificate of Workers' Compensation Insurance (ACORD Form 25) for each subcontractor and owner operator. If adequate proof of coverage is not provided, payroll will be charged for the uninsured parties during the audit.</p> <p>This rule applies to all subcontractors and owner-operators, including those who are sole proprietors without employees who may not be required (or even able) to purchase Workers' Compensation insurance.</p> |
| <p>13. What if the policyholder had no employees during the term?</p> | <p>Policyholders with no employees still need to provide tax verification. All pages of the policyholder's year-end tax from should be provided. Specifically:</p> <ul style="list-style-type: none"> • Form 1120 for corporations. • Schedule C (attached to Form 1040) for sole proprietors. • Form 1065 or other for LCCs/partnerships. |
| <p>14. If a policy is cancelled mid-term, does an audit still need to be conducted?</p> | <p>Yes.</p> |

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15. Do GUARD Reporting Interface for Payroll (GRIP) and/or Payroll Self-Reporting policies need to be audited?

Yes. While there is less chance for variance in payroll because figures are reported to us on a regular schedule with these billing plans, a premium audit is still required. Reasons for additional premium owed might include:

- Additional exposure (i.e., subcontractors) that was not reported during the policy term
- Reclassification of employees
- Adjustment for coverage for owners/officers in accordance with state laws
- Minimum premium requirement

16. Does the requested premium audit information HAVE to be provided?

Yes. According to state regulations as well as the terms of the **Workers' Compensation and Employers Liability Insurance Policy contract Part Five - Section G. Audit:**

You will let us examine and audit all your records that relate to this policy. These records include ledgers, journals, registers, vouchers, contracts, tax reports, payroll and disbursement records, and programs for storing and retrieving data. We may conduct the audits during regular business hours during the policy period and within three years after the policy period ends. Information developed by audit will be used to determine final premium. Insurance rate service organizations have the same rights we have under this provision.

17. What happens if a policyholder chooses not to cooperate with the premium audit?

Policyholders who refuse to cooperate with a premium audit will undergo a final audit with *estimated* payroll, which can result in a substantial premium increase (100% or more) of the original premium. In some states, cancellation of the renewing policy may also apply.

18. How can a copy of the premium audit worksheet be requested?

Simply email a request to premiumaudit@nlf-info.com.

19. Is there a way to dispute the audit results?

Yes. If the policyholder disagrees with the final audit results, a dispute can be forwarded to us by fax at 203-361-3846 or by email to premiumaudit@nlf-info.com. The dispute must include: (a) what is being disputed regarding the audit such as employee classification, payroll, etc. and (b) any and all supporting documentation.

Please return the completed form to:

 premiumaudit@nlf-info.com  203-361-3846

 NL&F Premium Audit | P.O. Box 113247 | Stamford, CT 06911-3247

Workers' Compensation insurance is underwritten by National Liability & Fire Insurance Company with principal place of business at 100 First Stamford Place, P.O. Box 113247, Stamford, CT 06911-3247. The information contained herein is not meant to be inclusive but intended to provide a general overview. All state and federal regulations apply. © 2022.