

# Your Premium Audit Guide

## Why an Audit?

A premium audit benefits a policyholder in a very important way: It ensures that you pay the fairest, lowest premium to which you are entitled. Your policy is based on an estimated premium, which was figured when your policy was written. To obtain and verify the information necessary to compute your actual earned premium for the policy period, an audit is required. An auditor reviews your business records to determine how much you paid to employees and uninsured subcontractors.

## The Audit Process

These definitions are based on guidelines from the National Council on Compensation Insurance (NCCI) and may vary by state.

## Business Records Needed for Audit

You will need to provide certain records to ensure your actual earned premium is based on current, accurate information. Required records include:

- State and federal tax reports (940, 941, 943, 990, 1040-C, 1065, 1096, 1099, 1120, Schedules E and F, etc.)
- Payroll records
- Profit and loss statements
- Cash disbursement journals, general ledgers and/or check registers
- Certificates of workers' compensation insurance
- Records from subcontractors who lease workers from an Employee Leasing Company (If this applies to you, contact your agent for specific documentation required.)

## Questions?

If you have questions about the audit process, contact us.

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## Remuneration Includes (State Exceptions May Apply):

- Wages or salaries, including those that are retroactive
- Commissions, bonuses (including stock bonus plans) and extra pay for overtime work
- Holiday, vacation and sick pay
- Payment by an employer of amounts otherwise required by law to be paid by the employee's statutory insurance or pension plans (such as the Federal Social Security Act)
- Payment to employees on any basis other than time worked, such as piecework, profit sharing or incentive plans
- Rental value of an apartment or house provided for an employee based on comparable accommodations
- Value of lodging (other than an apartment/house), meals, store certificates, merchandise or any other substitute for money received by employees as part of their pay
- Payments for salary reduction, retirement or cafeteria plans, which are made through deductions from employee's gross pay
- Davis-Bacon wages or wages from a similar prevailing wage law

## Remuneration Excludes (State Exceptions May Apply):

- Tips and other gratuities received by employees
- Payments by an employer for the employer's portion to a group insurance or group pension plan for employees
- Value of special rewards for individual invention or discovery
- Dismissal or severance payments (except for time worked or accrued vacation)
- Work uniform allowances
- Sick pay paid to an employee by a third party
- Payments for active military duty

An auditor will determine the classification of work performed by employees and uninsured subcontractors. The audit will be conducted by mail, by phone or in person.

## Special Rules

Special rules and state exceptions may apply to your audit — rules that can save you money if you know about them and keep proper records. Here are some of the most common and the requirements for each.

- **Overtime** — The premium portion of overtime may be excluded from your audit if it is shown separately in your records, totaled, and recorded in dollars not hours.
- **Officers/Owners** — An included active officer/partner/manager member/sole proprietor's payroll is subject to minimums, maximums or flat amounts. Minimum and maximum limits vary based on state and the effective date of your policy.
- **Vehicles under contract** — If you contract vehicles with drivers, and the owner of the vehicles has not furnished evidence of workers' compensation coverage for the drivers, the total payroll of the drivers will be added to your payroll. If that payroll cannot be obtained, the payroll will be figured at one-third of the total contract price for the vehicles.

## Audit Disputes

Audit disputes can occur and settling them can be time-consuming. To prevent this:

- Make sure the auditor has access to a complete set of records.
- Make sure you or your accountant can provide a detailed description of your operation and a job description of each of your employees and subcontractors.
- Have someone review the audit with the auditor during the exit interview.

If a dispute does arise, use these procedures to resolve it more quickly:

1. Determine the exact discrepancy and report it as soon as possible to Accident Fund's Premium Audit Department.
2. Pay all premiums not in dispute and attach all supporting documents, such as payroll reports, job descriptions, etc.
3. Be specific about the nature of your dispute.
4. Include your policy number on all correspondence.

If you provide enough detail, we may be able to revise your audit without sending an auditor to re-audit.