

Premium Audit Basics



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WORKERS' COMPENSATION INSURANCE
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Premium Audit Basics

Agenda

1	Basic Terms
2	Purpose of an Audit
3	Premium Basis
4	Types of Audits

Basic Terms


- Premium
 - Cost of the policy
- Calculation of premium
 - Total amount of compensation/payroll x the rate for classification code
- Audit
 - An examination and verification of payroll accounts & records



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Purpose of Audit

- Initial policy premium is an estimate of payroll
- Final premium is adjustable based on actual payroll
- Audit determines actual final premium

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Policy Conditions

Part Five- Premium

- G. Audit
 - Includes provision for the carriers right to conduct premium audits and the insured's obligation to provide the necessary information.


Part Six- Conditions


- A. Inspections
 - Includes provision for the carriers right to inspect your workplaces.

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Premium Basis

- Payroll
 - Money or substitutes for money
 - All forms of payments in exchange for services
 - Specific inclusions and exclusions



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Premium Basis

- Classification
 - Classifying payroll accurately
 - Assignment of one basic classification that reflects common exposure to loss
 - Business is classified, not individual operations
 - Some exceptions per Basic Manual

Types of Audits



Online Audits

- Notification letter with information
- Sign-on to secure system
- Provide information about operations
- Provide payroll
- Audit electronically transmitted
- Final audit results mailed to insured

Audit Scheduling

- Contact from audit appointment coordinator
- Scheduled as conveniently as possible
- Confirmation letter sent once appointment made
- Inability to secure an appointment could result in a cancellation

Telephone Audits

- Conducted via call between auditor and designated policyholder contact
- Supporting documentation may be requested



Physical Audits

- Conducted at insured premises or other designated site
- May include inspection



Final Audit Information

- Description of business operations
- Payroll report showing
 - Employee name
 - Total gross payroll with applicable deductions
 - Brief description of job
- State Unemployment Tax or Federal 941 quarterly report

Final Audit Information

- Summary list of all subcontractors (including temp employment or PEOs) with total amount paid
- Certificates of insurance evidencing coverage for subcontractors
- Profit and Loss or Income Statement
 - Verifies operations, payroll, subcontractor payments

Final Audit Additional Information


- Additional copies of information that may be required:
 - General ledger
 - Contracts
 - Work orders/invoices for subcontractors
 - Check registers
 - Income tax reports

Final Audit Results

Telephone/Physical Audits

- Exit interview with auditor
- Recap of operations and classifications
- Projected premium impact- indication only of estimated return or additional premium
- All audits are subject to final corporate review
- Final audit statement mailed


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Premium Audit Recap

- Examination and verification of records
- Conducted for the benefit of the insured and carrier
- Same basic information required
- Determines the final policy premium

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Questions?



Thank you!

Check the Texas Mutual website to see a list of upcoming seminars and webinars.