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WasteAdvantage magazine
The Advantage in the Waste Industry

Audits Are Nothing to Fear

Nathan Brainard

> Audits are well known for being painful, but if you take the time to plan accordingly during the renewal process and **MAINTAIN THE COURSE THROUGHOUT THE POLICY PERIOD, THEY CAN BE RELATIVELY PAIN FREE.**

THE WORD "AUDIT" TENDS TO INVOKE NOTIONS OF painstaking information gathering, countless wasted hours sitting with pencil pushers who have no sense of humor and other such images. The truth of the matter is, if you and your agent have taken the time to accurately project your past year's performance, the audit should be relatively pain free.

Each year your company goes through the insurance renewal, and during this process your agent should be meeting with you to discuss any potential changes in your operation that will have a direct impact on payroll or sales. These are the two items primarily driving an audit.

Providing Information

A question that is frequently asked is: "Why are audits needed?" Audits determine the correct exposure or premium base for the insurance coverage afforded. Your premium was estimated when your policy was issued and will be adjusted accordingly based on the audit.

Many times, the easiest way to provide your agent with the information they are asking for is to base it off of the previous year's performance. This can be a very slippery slope. For example, if you had a down year in 2009 and you used those numbers to project for 2010, but work has picked up, you could be in for a large audit at the end of the 2010 policy term. Conversely, if you were one of the few companies who had a good year in 2009, but business is now down in 2010 you could be paying more in monthly premiums than needed.

Types of Policies

There are two types of policies available:

1. *Auditable:* The company will send someone out to meet with you shortly after the policy expiration to determine if you have underpaid or overpaid. After this meeting you either receive premium back as you overpaid, or you receive a bill showing you owe additional premium as your projections fell short.

2. *Non-Auditable or Flat*: Based strictly on your estimates with no audit at the end of the policy term.

Audits typically apply to policies such as General Liability, Worker's Compensation and Umbrella or Excess coverage. Auto and Inland Marine/ Contractor's Equipment policies are auditable as well; however, any changes you make to these policies during the policy term tend to be applied immediately.

A Policy Comparison

Both auditable and non-auditable policies have their pluses and minuses. Yes, auditable policies do mean at some point the company owner, controller or office manager are going to have to meet with the auditor and provide them with the necessary information: financials, payroll documentation, certificates from subcontractors, etc. It is time consuming and can be quite aggravating. It can also end up costing you additional premium if your sales, payrolls, etc. were more than you anticipated, or if you have used an uninsured subcontractor. The flip side of this coin is if you overestimated your sales, payrolls, etc., you could be entitled to receive some premium dollars back.

Non-Auditable polices are just that, not auditable. They allow the premium to be based off of your estimates for the coming year. The benefit here is should you overproduce your estimate number, you do not owe any additional premiums; however, if you under produce your estimates, you will not get any return premium.

The obvious question here is why wouldn't you get non-auditable policies and under estimate every year? The answer is simple. The insurance carrier is going to ask you for financials to verify your sales estimates at the preceding renewal. If you went way over, they are not going to let you renew at the same projection unless you can document why. For example, you landed a large "one time" contract that will not be renewing.

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It is important to note that frankly, very few, if any of us expected the market to tank the way it did or to be as broad sweeping as it was. Situations like this are never going to be able to be factored into projections as they are an unknown. In situations where you see a large swing coming in either direction, you are able to counter a potential audit. Both types of policies can be amended mid-term should you conclude you over or under estimated the exposures for the term.

Types of Audits

In addition to the two types of policies listed, there are two types of audits. The first is the one we have been describing where the auditor comes out and meets with you to go over the books, etc.

The second is what they call a voluntary audit. This is where you supply the information to the carrier on a voluntary basis. This type of audit is generally reserved for very small operations engaged in "low risk" operations such as a single location retail operation. Unfortunately, this type of audit usually does not apply to the waste and recycling industry.

Auditors do have the ability to provide certain credits, but those credits will be based on how you maintain your records. According to manual classification and rating rules, there are allowable credits and a Premium Auditor can give you entitled credits if your records provide the necessary details.

Maintaining Your Payroll Records

As we have discussed, many of the premiums for your insurance are based on payroll, which is defined as total remuneration for services performed by an employee. In most states, remuneration means money or substitutes for money which include: bonuses, commissions, holiday pay, sick pay, overtime, payment for piece work, profit sharing plans, statutory benefits, store certificates, tool allowances, vacation pay, wages and other financial substitutes. By maintaining your payroll records in accordance with the following guidelines you might be able to reduce your insurance costs.

Overtime and Other Exclusions

In most states, the amount paid in excess of straight time pay can be deducted if your records confirm the excess. Your records must show the overtime pay separately by employee and in summary by classification of work and by state (if you operate in multiple states).

Other exclusions include: third-party sick pay, dismissal or severance pay, payments for actual military duty, work uniform allowance, employer provided perks such as use of an automobile, incentive trips, discounts on property or services, club memberships, tickets to entertainment or sporting events, etc.

Worker's Compensation

As for Worker's Compensation, many carriers are now offering what is known as Pay As You Go or Monthly Self Audit policies. This is where the carrier supplies you with some type of worksheet you complete on a monthly basis. You will show the actual payroll for each month by classification code and make your payment based on the actual numbers as opposed to making payments on an estimated number then going through an audit at the end of the policy term. This format is similar to how

Professional Employer Organizations (PEOs) or payroll companies operate.

This "system" allows you to maintain your own worker's compensation policy without having to make payments based on an estimate and ultimately helps cash flow for the company. It also does not tie you to a PEO/Payroll company if you are not interested in that course of action, but want flexibility in your payment terms.

If you are in a state where dividends are paid on worker's compensation, the Pay As You Go/Monthly Self Reporting options are still viable. They will most likely ask you for an estimate of payroll for the upcoming term and base your dividend off of the estimate. If you fall short or exceed your projections, this could affect your potential dividend. Be sure to ask your agent how this works so you understand the terms prior to entering into the contract. Most dividends work on premium ranges, so as long as you are within the same "range," your dividend should not be affected.

Preparing for the Audit

Here is a brief list of the documents or records that could be needed for your audit. The required information will vary depending on the types of coverage the audit covers. Usually the auditor can get what they need to complete the audit from the following: Cash Disbursements, Certificates of Insurance for Subcontractors; Individual Earnings Reports, Journals, Ledgers, Registrations or Ownership Tax Receipts, Tax Reports and Vehicle Titles.

The auditor will most certainly call you to arrange the meeting, so if you have any doubt about what will be needed, ask them during the appointment call. This should reduce the actual time spent with them during your meeting.

Audits are well known for being painful, but if you take the time to plan accordingly during the renewal process and maintain the course throughout the policy period, they can be relatively pain free. | **WA**

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