Insurance Audits Q & A

Insurance audit

The insurance audit is a process common to the insurance industry. We perform an audit to ensure you have paid no more or less than the appropriate premium for your exposure. An accurate audit is a benefit to you and your business and could save you time and money.

What is an audit?

An audit is an examination of your operation, records and books of account to discover your actual insurance exposure, including premium basis, classifications and rates that apply, for a specific period of time coverage was provided. "Exposure" means your payroll, receipts or sales, units, number of employees or contract cost. The audit is done to obtain insurance rating information only. This information is not used by federal, state or local government to calculate taxes. We intend audit information to be kept confidential.

Who conducts the audit?

An auditor representing Erie Insurance. The auditor may be an ERIE Employee or an employee of an independent auditing firm.

May I direct the auditor to contact my accountant to obtain the audit information?

Yes. Someone who has knowledge about the owners/officers, the exact job duties of the officers and the employees and a good general knowledge of the operation also should be present. Together, they can answer the auditor's questions so that the audit can be done quickly, efficiently and correctly in one visit.

How often will an audit be done?

It depends on the type of work you do and the size of the annual premium for the policy to be audited. Generally, a policy is audited every year, but some policies may be audited every third year.

When will the audit be done?

Within 90 days after the expiration date of the policy period so that any premium adjustments may be processed into your premium billing cycle. The auditor will notify you by mail or telephone shortly after the policy expiration date to schedule a convenient date for the audit.

Why is an audit necessary?

Premiums for workers' compensation insurance and for general liability insurance are calculated based on estimates of insurance exposure (for example, payroll, receipts, sales, units, etc.) expected during the policy period. An audit is conducted at the conclusion of the policy period to determine the actual insurance exposure during the policy term. The final premium is determined by using the actual, not the estimated, premium basis and the proper classifications and rates that apply to the business and the work during the policy term. Adjustments will be made to the premium based on the actual information.

What if my "estimates" are not accurate?

Estimates should be as close as possible to the actual amount of payroll and receipts incurred during the policy period. If the estimate is too low, you'll receive a bill for the additional premium for the audit period and the current year.
If the estimate is too high, you'll receive a refund, usually a credit to your current policy.

When are audited premiums due?

Premium audit increases will be invoiced for the full amount of the increase due in one monthly installment. Note: policies on electronic debit (ERIExpressPay® pay plan) will have the full audit increase withdrawn in one debit transaction. Notification will be provided prior to electronic debit occurring.

What should I do if my business receipts or number of employees increases, making the original estimates of exposure too low?

Contact your Agent immediately and ask to increase your estimates of exposure. Don't wait until the renewal date to adjust your payroll exposure. An adjustment now will help you avoid a large additional premium due when the policy period ends.

Can payroll be divided for employees who spend half of their time in the office and their remaining time working in the shop, store, etc.?

An employee cannot be split between Clerical Office and another classification.

What is payroll?

Payroll means remuneration in money or substitutes for money.

What is included as "payroll" when payroll is the premium base for workers' compensation insurance or commercial general liability insurance?

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Here are some of the most common inclusions in payroll for workers' compensation insurance:

- Employee wages/salaries (including pay for overtime holidays, vacations, or sickness) The state of Pennsylvania includes premium pay for overtime; all other states exclude.
- Executive officers' wages (minimum/maximum rules apply – unless specifically excluded)
- Commissions and bonuses
- Wages paid for time not worked, idle time, and strike periods
- Contributions or payments to IRS-qualified salary reduction plans
- Employees Retirement Income Securities Act of 1974 (contributions to employee accounts)

Here are some of the most common inclusions in payroll for commercial general liability insurance:

- Employee wages/salaries (including pay for holidays, vacations, or sickness)
- Payroll of executive officers, individual insureds, and partners (usually a minimum flat amount)
- Commissions and bonuses
- Cash value of housing, lodging, and meals if furnished to employee as part of their wages
- Piece-work wages
- Employer's payments on behalf of the employee to incentive plans or profit sharing plans
- Payments or allowances for tools.

Are there benefits for keeping good records?

Yes, detailed and properly-maintained records permit the auditor to complete the audit accurately and in a minimal amount of time. Organized records afford you the correct classification and rating of your operation, while allowing any adjustments entitled to you.

What records are reviewed during the audit?

A. Payroll

(1) Payroll Journal and Summary showing:

- Monthly and quarterly totals;
- Separate monthly and quarterly totals by each type of work performed;
- Overtime must be shown separated by employee and by type of work.

(2) Individual Earning Records showing:

- Type of work performed;
- Date hired and date terminated;
- Gross payroll:

  Monthly and quarterly totals
- Overtime:

  Monthly and quarterly totals

B. Cash Disbursements

Cash Disbursement Journal showing:

- Monthly totals by account;
  - (a) Materials;
  - (b) Subcontractors;
  - (c) Casual labor;
  - (d) Cash receipts.

C. Cash Receipts

Cash Receipts/Sales Journal showing:

- Monthly totals by source;
- Service and repair;
- Products;
- Installation.

D. Certificates of Insurance

Certificates of Insurance for each subcontractor showing:

- Workers' Compensation and General Liability coverage;
- Limits of coverage (equal to or greater than your policy limits or the state's statutory limit);
- Coverage effective for the entire period work was performed during the audited policy period (This may require more than one certificate)
- In Pennsylvania, if the subcontractor does not have Workers' Compensation coverage, then a signed contract will be required along with the general liability certificate and proof of independent contractor status.

Why is it important to secure copies of Certificates of Insurance for subcontractors?

Subcontractors who do not have adequate insurance may become the responsibility of the individual who hires them. For subcontractors who do not have proper insurance, there will be an additional charge to your commercial general liability and/or workers' compensation premiums.

What does ERIE do upon receipt of audit information?

When Erie Insurance receives audit information, it is reviewed and compared with the classification(s) and estimates of exposure on which your policy was originally rated and issued. A determination is made if an adjustment to your classification, rating exposure or premium is necessary. If an adjustment is required, an additional premium or a refund in the form of a credit to your current policy will be processed.

Note: When the audit results in additional or returned premium, the current policy's estimates of payroll and receipts (sales) will be adjusted.

What should I do if I disagree with the audit?

Contact your Agent if you have any questions about the audit or audit procedure. You may also contact Erie Insurance – Premium Audit Processing Section at 1-800-458-0811, extension 4948.