

# INSURANCE AUDIT

The insurance audit is a process common to the insurance industry. We perform an audit to ensure you have paid no more 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. This brochure will answer questions about insurance audits often asked by our Policyholders.

## 1. WHAT IS AN AUDIT?

An audit is an examination of your operation, records and books of account to discover your actual insurance exposure 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.

## 2. WHO WILL DO THE AUDIT?

The audit will be done by an auditor representing the Erie Insurance Group. The auditor may be an Employee of The ERIE or an employee of an independent auditing firm hired to do the audit.

## 3. MAY I DIRECT THE AUDITOR TO CONTACT MY ACCOUNTANT TO OBTAIN THE AUDIT INFORMATION?

Yes, it is acceptable to have the accountant who handles the payroll records, journals, etc., help with the audit. 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 these individuals can answer the auditor's questions so that the audit can be done quickly, efficiently and correctly in one visit.

## 4. HOW OFTEN WILL AN AUDIT BE DONE?

How often an audit is done 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. The frequency of the audit is decided by the Home Office.

## 5. WHEN WILL THE AUDIT BE DONE?

Audits will be completed within 60 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.

## 6. WHY IS AN AUDIT NECESSARY?

Premiums for Workers' Compensation insurance and for General Liability insurance are calculated based on estimates of exposure (payroll, receipts, sales, units, etc.) to be incurred during the policy period. An audit is conducted at the conclusion of the policy period to determine the actual payroll and receipts incurred during the policy term. Adjustments will be made to the premium based on the actual information.

## 7. 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 will receive a bill for the additional premium for the audit period and the current year. If the estimate is too high, you will receive a refund, usually a credit to your current policy.

## 8. WHAT SHOULD I DO IF DURING THE POLICY PERIOD 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.

## 9. 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's payroll cannot be split between classes and must be charged to the code reflecting the higher exposure to injury. One exception to this occurs in the construction industry. The division of an individual's payroll in construction can be made only when exact hourly and gross payroll amounts are separately recorded for each work classification. Division of payroll by percentage estimates is not acceptable.

## 10. WHAT IS PAYROLL?

Payroll means remuneration in money or substitutes for money.

## 11. WHAT IS INCLUDED AS "PAYROLL" WHEN PAYROLL IS THE PREMIUM BASE FOR WORKERS' COMPENSATION INSURANCE OR COMMERCIAL GENERAL LIABILITY INSURANCE?

The following are common inclusions in payroll for Workers' Compensation insurance:

- Employee wages/salaries (including pay for holidays, vacations, or sickness);
- Executive officers' wages (minimum/maximum rules apply);
- Commissions and bonuses;
- Expenses (considered as additional wages may be excluded *if* adequate records are kept);
- Extra pay for overtime (some states have additional rules which may include or exclude pay for overtime);
- Wages paid for time not worked, idle time, and strike periods;
- Contributions or payments to I.R.S. qualified salary reduction plans;
- Employees Retirement Income Securities Act of 1974 (contributions to employee accounts);
- Piece work wages;

- Employer's payments on behalf of the employee to incentive plans and profit sharing plans (subject to limitations by state);
- Payment or allowance for tools;
- Cash value of housing, lodging and meals if furnished to employee as part of their wages;
- Partners/sole proprietors where election to be covered is permitted by state law (minimum/maximum rules apply).

The following are not usually included in payroll for Workers' Compensation insurance:

- Tips and other gratuities (some states require the inclusion of tips);
- Payments excluded by law to group insurance or pension plans;
- Special rewards;
- Severance pay; and
- Overtime wages (are included for Pennsylvania, Delaware, Utah. Other states name additional rules which include or exclude overtime wages).

The following are 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;
- Gratuities/tips;
- Piece work wages;
- Employer's payments on behalf of the employee to incentive plans or profit sharing plans;
- Payments or allowances for tools.

The following are not usually included in payroll for Commercial General Liability insurance:

- Special rewards;
- Extra wages for overtime (each state's law dictates additional rules which include or exclude overtime wages);
- Payroll of clerical office employees;
- Payroll of salesmen, collectors, or messengers who work away from insured's premises;
- Payroll of drivers whose duties are to work on or in connection with autos; and
- Payroll of aircraft pilots and co-pilots whose duties are to work on or with aircraft.

## 12. 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. Most important, well kept records afford you the correct classification and rating of your operation, while allowing any adjustments entitled to you.

## 13. 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 coverage 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.

## 14. 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. Therefore, it is important to maintain current Certificates of Insurance for all subcontractors to verify each is properly insured. For subcontractors who do not have proper insurance, there will be an additional charge to your Commercial General Liability and/or Workers' Compensation premiums.

## 15. WHAT DOES THE ERIE DO UPON RECEIPT OF AUDIT INFORMATION?

When The ERIE 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 a substantial additional premium, the current policy's estimates of payroll and receipts (sales) will be increased to avoid another substantial additional premium on the next audit.

## 16. WHAT SHOULD I DO IF I DISAGREE WITH THE AUDIT?

Contact your Agent. If appropriate, the Agent will contact ERIE's Home Office. The ERIE will work with you through your Agent to rectify any problems.

If you have any additional questions about the audit procedure or this brochure, please contact your Agent.



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ERIEplaceable<sub>SM</sub> Business Insurance

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