

How to Survive Insurance Audits

All companies covered by insurance must respond to insurance audits annually. These audits can be good experiences if managed correctly, or can become stressful events resulting in wasted time, premium increases and adjustments or even cancellation of policies. By knowing what to prepare and maintaining organized records, you can survive your insurance audit.

Why are insurance policies audited?

Policies are audited to ensure that the premium charged by the insurance company reflects their actual exposure, which was estimated at policy inception.

Insurance audits are performed by employees of the insurance company or independent auditors hired by the insurance company; in some cases forms will be sent to the business for a 'self audit' process. In all cases, the business must prepare information and utilize the time of its employees to respond to the audit. Who is involved depends on the type and size of the company. Personnel required might include the Office Manager, Accounting Manager, Controller or external CPAs. These individuals are responsible for gathering and presenting the information to the insurance company.

What is the auditor looking for?

Insurance companies audit certain Liability policies and ALL Workers' Compensation policies. The audits collect exposure information estimated when the policy was written and compares it to the actuals. This data is then used for determining and adjusting premium amounts. Information typically (though not exclusively) required includes the following:

- Liability Policies
 - Gross company sales
 - Independent contractor costs (insured and uninsured)
 - Payroll for certain types of exposures
- Workers' Compensation Policies
 - Actual employee payroll
 - Cost of independent contractors if no certificate or proof of other coverage is provided

This information may be in the form of payroll records, Federal Form 941, Financial Statements, Check Registers and Certificates of Insurance from contractors/vendors. A company's use of contractors can be determined by information disclosed in the financials or check register. Contractors/Vendors that do not have valid insurance certificates proving independent coverage will be added to the company's exposure totals. Not only do the possibly uninsured contractors/vendors increase a company's exposure to loss, they can also cause significant increases in their premiums.

What makes for a 'good audit' experience?

The main requirement for a 'good audit' experience is having all the information requested readily available for the auditor when they arrive on the premises. This includes easy access to contractor certificates of insurance demonstrating that the coverage is current and meets required limit levels. The upfront preparation and organization by the company can prevent ongoing audit responses and adjustments later on. Another 'good audit' experience is no surprises such as large premium adjustments, amounts due or returns after the audit is complete.

What makes for a 'bad audit' experience?

If the company cannot readily access the requested data, a variety of unwanted events can occur including:

- Excessive waste of time for the auditor and company personnel
- Company (Policy holder) gets a bill for a large additional premium for the audit period and next period
- Company must immediately contact contractors requesting certificates and forward to auditor for premium adjustments, requiring significant time for both parties.

What are the potential consequences of a bad audit?

The results of a bad audit can be severe, especially if the audit resulted in additional premiums. Policies may be cancelled due to non-payment of the additional premium or for non-cooperation in the audit process. Credit may be affected negatively. Staff will need to dedicate additional time to correct or adjust audit discrepancies, resulting in lost productivity and a disruption of the work routine. Some carriers may remove the company from being able to do an easy 'self audit' using forms.

How do you avoid a 'bad audit' experience?

Two words – *be prepared*. Understand what is auditable and what the audits are based on. Have the requested financial information available for the auditor. Have readily available copies of all of the certificates of insurance from your vendors and contractors demonstrating current coverage at required limit amounts. Be sure the certificates are tracked and kept up to date. Implement some type of automated system that allows the company to track policy expirations and attach images of the insurance certificate to expedite the audit process and ensure premiums are not increased unnecessarily. Automated systems – notably insurance and vendor tracking software – are available on the market to help in this process.

To survive your insurance audit, make sure you know what the auditor wants in advance, collect and organize the information and be ready to find additional data quickly. Avoid the pitfalls and surprises of the 'bad audit' experience!

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